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OF THE PRESIDENT

SUMMARY OF TESTIMONY PRESENTED TO THE COMMITTEE ON
WAYS AND MEANS ON THE PRESIDENT'S TAX PROPOSALS



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PREFACE

This document contains summaries of the prepared statements submitted to the Committee on Ways and Means by witnesses testifying at hearings on President Reagan's comprehensive tax reform proposal.

The document is arranged in the order of hearing dates and topics as announced in committee press releases. It begins with testimony of the Department of the Treasury on May 30, and concludes with testimony presented on July 31—a total of 29 days.

The committee wishes to acknowledge the assistance of the staff of the Congressional Research Service of the Library of Congress for preparation of the summaries.

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SUMMARY OF TESTIMONY PRESENTED TO THE COMMITTEE ON WAYS AND MEANS ON THE PRESIDENT'S TAX PROPOSALS

May 30—Secretary of the Treasury

Hon. James A. Baker III, Secretary of the Treasury

Indicated that President Reagan made all of the final decisions concerning the tax reform proposals. The proposals conform to six basic principles of taxation: low tax rates, reform rather than tax increases, fairness for families, economic neutrality, simplicity, and fair and orderly transition. Stated that taxpayers are dissatisfied with the current tax system. They feel it is unfair because some high-income individuals pay no tax, because people with the same income pay dissimilar rates of tax, and because it is too complex.

For individuals, the President's tax reform proposals would be a three-bracket system, with rates of 15, 25, and 35 percent. The maximum rate on capital gains would be reduced to 17.5 percent. Families would benefit because of the increase in zero bracket, personal exemption, and earned income tax credit. Many itemized deductions would be repealed; for example, the State/local tax deduction and the deductibility of some interest expenses. Deductions for interest on a principal residence and charitable contributions would remain. The tax proposals would leave unchanged or cut taxes for 79 percent of taxpayers, and would increase taxes for 21 percent of taxpayers.

For corporations, the tax rate would be reduced to 33 percent; a deduction for 10 percent of dividends paid would be allowed; the investment tax credit would be repealed, and the accelerated cost recovery system (ACRS) would be replaced with the capital cost recovery system. Percentage depletion would be phased out, except for stripper wells; and expensing of intangible drilling costs would be maintained. Minimum taxes for both individuals and corporations would be retained and tightened. These changes would make the tax system more neutral and promote economic growth.

June 4—Chief Executive Officers From Various Industries

John M. Richman, Chairman of the Board and Chief Executive Officer of Dart & Kraft, Inc.

In general.—Points out voluntary compliance is slipping. Calls for total restructuring of Tax Code with rate reduction for corporate and individual taxpayers as the central theme. States that rate reduction will increase the system's fairness, produce increased savings and investment by individuals and businesses, better investment choices and a more equitable distribution of the corporate tax burden. Favors Treasury's initial recommendation to alleviate the double taxation of dividends through use of a 50-percent dividend deduction.

Recommends that rate reduction and base broadening measures have same effective date.

Lewis W. Lehr, Chairman of the Board and Chief Executive Officer of 3M Corp.

In general.—Endorses the President's proposals. Asserts that the proposals will help stimulate growth, producing economic expansion, more jobs, more research and development, and more Federal revenue.

Reduction in corporate tax rate.—Believes that reduction in the corporate tax rate is the most positive element of the President's proposal: Would tend to make debt financing more costly and thus encourage expansion through use of equity, and, coupled with the credit for dividends paid, would reduce the impact of double taxation and lessen tax considerations as a factor in the decisionmaking process.

James L. Ferguson, Chairman of the Board and Chief Executive Officer of General Foods Corp.

In general.—Strongly supports the general concept of tax reform. Believes any tax reform, to be effective, must recognize five tax policy principles that the current system violates; fairness, neutrality, efficiency, stability, and simplicity.

Stresses four revisions to bring present system in line with these principles—broadening the tax base coupled with lower rates, taxing corporate income only once, imposing uniform effective tax rates, and eliminating investment incentives which are not available to all.

Supports the President's proposals generally, with reservations noted with regard to depreciation, indexing, and the minimum tax.

John G. Smale, President and Chief Executive Officer of the Procter & Gamble Co.

In general.—Expresses strong support for tax reform and tax simplification. States that reform must address the issues of fairness, neutrality, and simplicity while staying away from incentives or disincentives which affect allocation of resources and business decisions.

States that the President's proposals are a step in the right direction. Specifically endorses the lowering of the corporate rate to 33 percent and the concept of the dividend deduction (but questions limiting the deduction to only 10 percent).

Criticizes three aspects of the President's proposals: Subjecting part of the accelerated depreciation which was claimed between 1980 and mid-1986 to special taxation, "mismatching" the lowering of the tax rates and the elimination of existing tax benefits (as well as other transition rules) and the proposed treatment of retirement plans.

John H. Bryan, Jr., Chairman of the Board of the Grocery Manufacturers of America, Inc., and Chairman of the Board and Chief Executive Officer of the Sara Lee Corp.

In general.—Endorses, unequivocally, tax reform and a fundamental overhaul of the Tax Code. Focuses support on the reduction of the corporate tax rate and the dividend deduction. Emphasizes the need to remove industry-specific incentives and disincentives from the Tax Code in order that tax considerations will no longer be paramount in business decisions and that all types of business will be treated equally.

William R. Howell, Chairman of the Board and Chief Executive Officer of the J.C. Penney Co., Inc.

In general.—Urges comprehensive change in the tax laws. States that from retailer's point of view change must contain four elements: substantial reduction in the top corporate rate accompanied by retention of rate graduation for smaller companies, adequate deduction of dividends paid, reduction in individual tax rates which would increase consumers' disposable income, and recognition of the importance of the retirement security and health insurance needs of employees.

Corporate rate reduction.—Believes that reduction of the corporate tax rate would greatly increase new investment and transfer much of business reliance for financing from debt to equity. Also tax considerations would be of less importance in making business decisions.

Favors the retention of graduated rates for smaller businesses and the dividend deduction. States that the 50 percent deduction of the first Treasury proposal would be much more effective than the 10 percent of the President's plan.

Taxation of employee benefits.—Indicates concern over the impact upon labor-intensive industries of the taxation of employee benefits such as pensions and health care. Specifically criticizes the proposals which would eliminate the 10-year averaging of lump sum distributions under qualified plans, tax the first \$25 of employ-

er contributions to health plans, and add complexity to the already complex area of pensions.

June 5—IRS Commissioner and Former Treasury Officials

Roscoe L. Egger, Jr., Commissioner, Internal Revenue Service

In general.—Believes tax reform is necessary to stem the public's perception that the tax system is inequitable and to halt the concurrent drop in voluntary compliance. States that extensive tax legislation in recent years has made the law nearly impossible to understand and difficult for the IRS to administer. Concludes President's proposals will reduce the number of tax preference, reduce the marginal tax rates, and result in fewer taxpayers who itemize their deductions. Suggests simplification may be further aided by the eventual development of a return-free tax system where the IRS would prepare returns for a majority of taxpayers.

Joseph W. Barr, Former Secretary of the Treasury

In general.—Strongly advocates tax reform at this time because Members of Congress from the right and left are leading the movement, the President is committed to support reform, and the public is also ready to support reform because of the prevailing sense that the system is unjust. Points out that the tremendous Federal deficit may lead to a need to increase taxes in the future and an increase will be easier to get if the system is fair and simple.

John E. Chapoton, Resident Partner, Vinson & Elkins (Former Assistant Secretary of the Treasury for Tax Policy)

In general.—Feels that the President's tax reform proposal is a move in the right direction. Summarizes the last 25 years in the evolution of the corporate and personal income tax systems as having the primary effect of raising marginal tax rates and applying them to a narrowing tax base. States that inflation has been the main culprit in this evolution.

Believes that tax reform need not be an all-or-nothing proposition, but rather that to the extent the tax base is broadened and tax rates are lowered the distortive effects of the income tax will be diminished commensurately.

Individual income tax proposals.—States that the President's proposal with its lower rates and broader base should reduce tax avoidance incentives and thus lessen tax sheltering.

Corporate income tax proposals.—Believes that broadening the tax base and lowering the rates will tend to equalize tax treatment across industries and thus be less disruptive to investment decisions. Emphasizes the need for indexing the depreciation system to answer the perception of unfairness in the taxation of capital income and prevent inflation from severely eroding cost recovery allowances.

Edwin S. Cohen, Partner, Covington & Burling (Former Under Secretary of the Treasury)

In general.—Agrees rate reduction and relief at low income levels should be major goals of tax reform but cautions that some of the President's proposals are complex and not essential to the legislation. Suggests deferring decisions on difficult areas such as the treatment of foreign currency and the treatment of estates and trusts until they can be considered in depth. Favors spending more time reviewing the proposals rather than rushing the bill for passage by any set date such as Christmas.

Daniel I. Halperin, Professor, Georgetown University Law Center (Former Deputy Assistant Secretary of the Treasury for Tax Policy)

In general.—Applauds the President's willingness to take an active role in tax reform. Supports most of the proposals for structural change. Has the following specific concerns: tax reduction for very high income levels is too great; the plan is not as neutral or as simple as the initial Treasury proposal; the President's rhetoric will lead the public to expect more than the plan can deliver.

Would add an additional tax bracket at the top of the tax table to remedy these concerns. Proposes equal treatment of all income including capital gains. Opposes repeal of the two-earner deduction. Urges elimination of deductions and provisions which defeat the aims of neutrality and simplicity; i.e., capital gains indexing, differing rates for small corporations (feels they can take advantage of Subchapter S), and limited partnership passthroughs which encourage tax sheltering.

Frederic W. Hickman, Partner, Hopkins & Sutter (Former Assistant Secretary of the Treasury for Tax Policy)

In general.—Cautions massive tax changes may be unwise at a time of major budget deficits in light of the unreliability of future revenue estimates. Believes new proposals do not simplify the Tax Code as supporters claim but create new complications. In addition, the big revenue raisers of the program—repeal of State and local tax deductions and capital cost recovery—will disrupt existing economic relationships. Questions whether such disruption is a worthwhile trade for the great reduction in marginal rates and modest overall reduction in individual taxes.

Donald C. Lubick, Partner, Hudson, Russ, Andrews, Woods & Goodyear (Former Assistant Secretary of the Treasury for Tax Policy)

In general.—States that the impact of repeal of inefficient tax expenditures can be cushioned by substitution of a lower cost outlay program in many cases within the overall constraint of revenue neutrality. Elimination of tax expenditure programs are spending cuts, not tax increases.

Believes it is unfair to base almost all of the individual reductions on elimination of deductibility of State and local taxes when considering base broadening on the individual side. Across-the-board restrictions on itemized deductions would be fairer. Suggests

base broadening should include greater elimination of fringe benefit exclusions in a way to eliminate incentives to their proliferation. States that the proposed treatment of capital gains on certain assets is unjustified and is too generous to the most affluent. Capital gains should not entirely escape taxation in a person's lifetime.

John S. Nolan, Partner, Miller & Chevalier (Former Deputy Assistant Secretary of the Treasury for Tax Policy)

In general.—Generally favors proposal because it broadens tax base and promotes fairness, especially by exempting families at or below the poverty level from tax. Recommends the following further reforms: ending taxation of capital gains on a preferential basis, imposing a ceiling on the deduction allowance for principal residence mortgage interest, and taxing business earnings and capital investment only once by offering full deduction for dividends paid rather than the 10-percent deduction in the President's plan.

Mortimer M. Caplin, Partner, Caplin & Drysdale (Former Commissioner of Internal Revenue)

In general.—Acknowledges need for broad tax reform but questions Congress' ability to withstand pressure from special interest groups against reform. Recommends removing the proposals for inflation-adjusted indexation of capital gains and depreciation which encourage tax shelter investments. Views the elimination of tax shelter abuses as central to restoring public's confidence in the fairness of the tax system.

Donald C. Alexander, Partner, Cadwalader, Wickersham & Taft (Former Commissioner of Internal Revenue)

In general.—Endorses basic goals of reform to broaden tax base and lower tax rates. Recommends elimination of overly complex alternative of add-on minimum taxes and the depreciation recapture provision. Believes immediate elimination of State and local tax deductions to balance the cost of almost doubling the personal exemption and reducing marginal tax rates is too drastic. Prefers gradual phasing out of deductions and phasing in of tax rate reductions.

Sheldon S. Cohen, Partner, Morgan, Lewis & Bockius (Former Commissioner of Internal Revenue)

In general.—Supports a progressive income tax but believes elimination of most deductions and credits is only way to simplify tax return preparation. Supports broadening the tax base and urges greater decrease in the number of allowable deductions.

States President's program unfairly grants relief to the highest income earners and little to the middle class. Questions tax reduction at a time of budget deficits. Although the proposals are supposed to be revenue neutral, the Treasury estimate shows they would cost \$11.5 billion by 1990.

Believes repeal of fringe benefit and capital gains exemptions would do most to simplify the Tax Code. Suggests moving ahead slowly on the implementation of a return-free system to make sure taxpayers will accept and use such a system. Even with reforms, the IRS will have a difficult job and Congress must make sure the agency is adequately funded.

June 6—Tax Burdens of Low-Income Wage Earners

Hon. Thomas P. O'Neill, Jr., Member of Congress (Massachusetts) and Speaker of the U.S. House of Representatives

Tax burden of the working poor.—Points out that any tax reform proposal should be aimed at reducing the tax burden of the working poor. States that the goal of the tax reform effort should be to restore the working poor to the level of taxation that they experienced before inflation eroded their tax deductions. Welcomes the shift in the President's tax reform plan which reverses the decline in corporate tax revenue as a source of Federal revenue. Elaborates on how the 1981 tax bill's tax reduction provisions affecting the working poor were so small that they failed to offset inflation and other taxes. Sets as a priority the reversal of the rising tax burden of the working poor.

Robert M. Ball, Former Commissioner of Social Security

In general.—Expresses the belief that the tax reform effort should remove unwarranted tax preferences for those who are well off. States that the President's tax reform proposal would improve considerably the income position of the working poor and relieve most people below the poverty level of having to pay income taxes at all.

Sees no reason why tax reform should be revenue neutral with the huge budget deficits and the many unmet needs. Asks the committee to give careful attention to the issue of removing the deduction for State and local taxes.

Tax reform and the elderly.—Expresses a positive attitude toward the reduction of the tax burden on the elderly and the elimination of certain unfair advantages that higher income elderly have under the present tax law. Points out that the combined changes in the personal exemption, the zero-bracket amount and the tax credit for the elderly are clearly favorable to most middle-income elderly people. Endorses the elimination of the double exemption for the elderly because of the present unwarranted break to the elderly who are relatively well off. Points out that the tax reform proposal is fine for middle-income people, but a cost-of-living adjustment freeze on Social Security would hurt the middle-income elderly and have a devastating effect on lower-income elderly.

Alvin L. Schorr, Leonard W. Mayo Professor of Family and Child Welfare, School of Applied Sciences, Case Western Reserve University

The double personal exemption.—Proposes enacting a refundable tax credit to replace the personal exemption, the earned income credit, and the special exemption for age and blindness. Describes how the present proposal to increase the personal tax exemption

would not give low-income taxpayers their proportionate share of the benefit. States that the net revenue loss to the Government by adopting the refundable tax credit would be a little over \$7 billion a year—as compared to \$40 billion for personal exemption. Points out that the refundable tax credit would move in the direction of tax simplification.

Harold M. Hochman, Professor of Economics, Baruch College, The City University of New York

Tax burdens of low-income wage earners.—Expresses the opinion that the current proposals for tax reform and simplification address some of the aspects of the tax burdens of low-income wage earners, but fail to address the issues of payroll taxes and excise taxes. States that there has been a substantial increase in the tax burden of individuals at the lower end of the distribution of income traceable to three factors: (1) slight decline in the effective tax rates on corporate income; (2) the continuing increase in the payroll or Social Security tax; and (3) the continuing reliance on selective excise taxes, levied on the purchase of such goods as automobile tires, beer, gasoline, and cigarettes. Concludes that since the burden of sales and excise taxes is four times larger than that of the individual income tax, the focus of the current discussion of tax reform may be misplaced.

State and local taxes.—Points out that the elimination of the deduction for State and local taxes will add pressure on State and local government budgets and will force the curtailment of such social services as public education, hospitals, and recreational facilities that are heavily used by low-income wage earners and their families.

S. Anna Kondratas, Schultz Fellow in Health and Urban Affairs, The Heritage Foundation

Taxes and the poor.—Expresses the opinion that the President's tax reform plan will make nontaxation of poor families a permanent tax policy. States that the heavy burden on the poor resulting from the increase in the amount of payroll taxes should be addressed by changes in the Social Security System and that Federal tax policy should not be used to correct Federal entitlement program policy. Attributes most, if not all, of the rise in the tax burden on the poor to the inflation occurring over recent years.

Emphasizes that the Federal tax with the most pernicious effect on the poor is the Social Security payroll tax. Concludes that a tax policy that pushes people into poverty or places insuperable obstacles in the way of working their way out of poverty only abets welfare dependency and burdens other taxpayers. Views indexation, as proposed in the President's proposal, as a method of keeping taxpayers from being pushed into higher tax brackets unless they experience a rise in real, as opposed to nominal, income, and will keep those poor who currently have no income tax liability from ever crossing the tax threshold if their real income doesn't rise.

Robert Greenstein, Director, Center on Budget and Policy Priorities

Federal tax treatment of low-income persons.—Expresses positive feelings regarding the President's attempt to reduce the tax burden

on poor working families, but expresses some concern regarding the treatment of certain groups of the working poor. Details the drastic increase in the tax liability of the working poor since the late seventies. States how the President's tax reform proposal would end income tax liability for most poor families. Points out how, even under the tax reform proposal, the working poor would be one of the few groups still paying a higher percentage of income in taxes than it did in the late 1970's. Expresses concern over the present proposal's treatment of: (1) working poor who do not qualify for the earned income credit; (2) the taxation of fringe benefits; and (3) the conversion of the child care credit to a deduction. Suggests some modification in the plan's reduction in the top tax rates, the preferential treatment accorded to capital gains, and the continuation of accelerated depreciation.

Charles V. Bergstrom, Executive Director, Office of Governmental Affairs, Lutheran Council in the U.S.A.

Tax burden of low-income wage earners.—Expresses the opinion that the tax treatment of the poor in recent years is clearly unfair and unjust. Suggests that the earned income credit and the level at which it is phased out be increased and that heads of households with dependents be accorded the same treatment as married couples with dependents with respect to the zero bracket amount. Calls attention to the disparate treatment of the rich and the poor which will result in the change from a child care tax credit to a tax deduction. Urges the committee to quickly remove the unfair burden of taxes from people who are working but not earning enough to provide an adequate living standard for themselves and their families.

Mary Bourdette, Director of Government Affairs, Children's Defense Fund

Tax burden imposed on families in poverty.—Suggests that Congress take immediate action to repair the damage imposed on the poor as a result of recent tax policy by: (1) exempting all working families in poverty from Federal income taxes; and (2) offsetting for them a portion of the highly regressive Social Security tax. Concludes that the President's tax reform plan, more than any other of the current reform plans, provides substantial relief to working families in poverty.

Urges rejection of the change of the dependent care tax credit to a deduction. Considers the taxation of the first \$300 of fringe benefits as counterproductive both to tax relief for the poor as well as to the need to expand health insurance coverage to low wage workers. Calls for the expansion, increase, and indexing of the earned income credit along the lines of Congressman Rangel's proposal, which would expand eligibility for the earned income tax credit to families earning up to \$16,000 per year. Recommends further that the earned income tax credit be increased with an allowance for each dependent child and an additional allowance for each child under 6. Recommends that the zero bracket amount be raised for single heads of households to the same level allowed for married couples filing jointly.

***Frederick C. Hutchinson, Tax Policy and Domestic Hunger Analyst,
Bread for the World***

Federal tax status of low-income wage earners.—States that the establishment of economic decency is an integral part of the fight against hunger in the United States. Believes that taxing those who have yet to achieve this floor of decency is contrary to the Christian concept of fairness. Urges the elimination of Federal income and payroll taxes on families in poverty as a high priority of tax reform. States that the low income provisions of the President's tax reform proposal represent a solid starting point from which this goal can be achieved. Advocates changes in the President's tax reform proposal in the areas of the earned income tax credit, the zero bracket amount, and the child and dependent care credit to relieve the tax burden on families in poverty.

Evelyn Harvey, Corapeake, NC, accompanied by Susan Rees, Executive Director, Coalition on Block Grants and Human Needs

Tax reform and low income people.—Declares that individuals and families should not be required to pay Federal taxes if they live at or near the poverty line. Urges the committee to retain or expand the administration's improvements of the earned income tax credit, zero bracket amount, and personal exemption. Endorses Congressman Rangel's proposed modification of the earned income tax credit. Asks that the final tax reform bill make our tax system more progressive and close as many corporate loopholes as possible in order to broaden the tax base. Believes that any tax reform proposal must, if anything, raise revenues.

Joseph M. Trevino, Executive Director, League of United Latin American Citizens (LULAC)

In general.—Maintains that reductions can and should be made in areas of the budget which reflect wasteful expenditures and do not maximize the Federal investment. Points out the high levels of poverty, unemployment, and school dropout rates among Hispanics in this country. Finds deficiencies in the President's tax reform plan in the areas of: (1) the discrepancies in the dollar amount of tax cuts between low income and high income taxpayers; (2) the proposed exemption of capital gains from taxation; (3) the proposal to tax health benefits; (4) the deduction for business meal expenses; and (5) the low rate proposed for corporate taxes.

Stanley Hill, Associate Director, District Council 37, American Federation of State, County, and Municipal Employees

Low income issues in the President's tax reform proposal.—Expresses the belief that the President's tax reform proposal taken as a whole is not fair tax reform but will increase the overall burden borne by low-income wage earners and worsen the plight of the poorest citizens of this country. Supports the increase and indexing of the earned income tax credit and the zero bracket amount. Points out that the President's proposal does not nearly restore the tax treatment of a poverty level family to what that family would have paid in taxes in 1979.

Contends that the President's plan for the taxation of employer-paid health insurance is a regressive proposal. States that the transforming of the child care credit to a deduction eliminates the ability-to-pay feature of the Tax Code for all lower-income workers and most middle-income taxpayers.

Draws attention to the adverse impact the elimination of the deductibility of State and local income taxes will have on the very poor. Advocates changing the personal tax exemption to a tax credit. Expresses reservation about the reduction of the maximum individual tax rate to 35 percent.

Ned McCulloch, Legislative Director for the Association of Community Organizations for Reform—Now, on Behalf of Citizens for Tax Justice

Taxes and the poor.—Calls attention to the adverse effect that the 1981 Tax Act had on the poor by the failure, among other things, to adjust the zero bracket amount, the personal exemption, or the earned income credit for the effect of inflation. Recites the increase in various State and local taxes over the past few years. Points out that when States, cities, counties, and other local units of government raise taxes, they raise taxes that hit poor families the hardest. Asserts that the President's tax package fails to reduce the tax burdens of poor families to their pre-1981 levels.

Jeffrey S. Gold, Founder and Past Chairman, Community Tax Aid, Inc.

In general.—Describes the Federal tax burden of low-income taxpayers as having two closely related, intertwined aspects: complexity and inequity. Characterizes the fairness component of the President's tax proposals as being based not on a person's ability to pay but more on the need to limit both the urge and the opportunity to take undue advantage of the loopholes in our tax laws and in the frailties of the tax lottery. Questions that closeness between the highest and the lowest tax brackets. Concludes that a tax credit, rather than the personal exemption, would be fairer and would shift the tax burden to those better able to pay it.

Carla Michelle Curtis, Public Policy Analyst, National Black Child Development Institute

Tax reform and dependent care.—Expresses the view that the tax burden of the poor, most of whom are women and their dependent children, must be alleviated. Points out how the availability of child care will assist parents in accepting employment. Endorses the efforts by Representative Barbara Kennelly to increase the Title XX Social Service Block Grant authorization level.

Concludes that the Treasury tax reform proposal of changing the dependent care tax credit to a tax deduction does not target benefits to those families most in need of economic support for child care. Urges the retention of the dependent care credit as provided for under current law and the application of the savings to the title XX program to assist low-income families with their child care expenses.

Recommends that: (1) the earned income tax credit be increased for inflation and indexed for future inflation; (2) the zero bracket amount be increased; and (3) the personal exemption be raised.

Paul Moss, President, Parents Without Partners, Inc.

Tax reform proposals affecting single-parent families.—Maintains that the retention of a separate tax rate structure, as presented in the president's proposals, fails to simplify that Tax Code and maintains the current inequality between single and married couple families of the same size. Points out that while raising the personal exemption amount would provide some help to single-parent families, an increase in the zero bracket amount is also needed to lift some of the tax burden that disproportionately hits them. Concludes that expanding and indexing the earned income tax credit is critical to the very-low-income single-parent families.

States that the efforts to cancel the child care credit or to turn it into a deduction have a major negative effect on single-parent families. Expresses opposition to the taxation of employer-paid health insurance benefits. Concludes that the beneficial effect of the President's proposals on families ignores the majority of single-parent families and several of the benefits the present Tax Code has in place for working parents.

Georgia L. McMurray, Deputy General Director, Community Service Society of New York

Tax burdens of low-income wage earners.—Recommends that the income circumstances of the poor be given special consideration in any forthcoming debate on comprehensive tax reform. Opposes any tax reform at the Federal level which would result in more-than-offsetting increase in State and local taxes. Provides data to demonstrate how increased taxes, higher prices, and diminished public and social services have made life harder for low-income people. Expresses preference for tax policy changes which serve to increase the economic status of the poor.

June 7—Public Interest Groups and Taxpayer Organizations

Floyd K. Haskell, Former U.S. Senator, Chairman, The Taxpayer's Committee

Taxation of investment income.—Indicates that a higher percentage of families in the over-\$200,000 category would benefit from the proposal due to the deduction for intangible drilling costs, the capital gains exclusion, and the allowances for depreciation. Says that minimum tax is a "confession of failure" to limit tax shelters.

Taxation of employee benefits.—States that revenue loss from tax-free fringe benefits is projected to grow at twice the rate of revenue loss from investment preferences. Points out that the vast majority do not benefit from tax-free benefits, except for health insurance. Urges committee to limit tax preferences in this area and report a genuine "reform" bill.

Robert S. McIntyre, Director of Federal Tax Policy, Citizens for Tax Justice

Corporate income taxes.—Points out that the Congressional Budget Office reports that the effective corporate tax rate has been cut in half since 1980. Concludes that corporate and business tax incentives have not resulted in any significant increase in the national savings and investment rate.

Recommends the following changes in the administration's proposals on corporate and business income tax: (1) replace the proposed capital cost recovery system (CCRS) of depreciation with a depreciation system similar to that originally proposed by the Treasury; (2) eliminate special tax treatment for the oil and gas industry; (3) scale back or eliminate the proposed 50-percent capital gains exclusion; (4) treat limited partnerships with more than 35 members as corporations, so that tax loss passthroughs would no longer be possible for large syndicated tax shelters and include more stringent at-risk rules; and (5) increase the proposed 33 percent corporate tax rate to 40 percent.

Also recommends that the committee: (1) reject the proposal to extend the research and experimentation credit; (2) reexamine transition rules for the reforms involving financial institutions; (3) repeal the tax credit for employee stock ownership plans; and (4) eliminate the proposal to index inventions.

Individual income taxes.—Contends that the administration's proposals for changes in the individual income tax rates benefit wealthy individuals more than those in middle-income brackets. Recommends that the committee: (1) adopt an individual income tax rate structure with a top rate of at least 40 percent, perhaps for personal income in excess of \$100,000; (2) retain the income tax deduction for State and local taxes; and (3) eliminate the proposal to tax a portion of employer-paid health insurance.

Al Bilik, Spokesperson, Citizens Organized to Restore an Effective Corporate Tax

Corporate income taxes.—States that the major reforms needed in the present corporate tax are with the accelerated cost recovery system (ACRS) and the investment tax credit. Contends that while the administration's proposal calls for the repeal of the investment tax credit, the proposed depreciation system is even more generous than the ACRS.

Points out that according to Treasury estimates, the real increase in corporate taxes under the administration's proposal will be only 9 percent, and the proposed minimum tax would actually raise less than \$1 billion per year. States that what is needed is a 20-percent-or-more increase in corporate taxes.

Nancy Duff Campbell, Co-Chair (Managing Attorney, National Women's Law Center), and Maxine Forman, Co-Chair (Director, Policy Analysis, Women's Equity Action League), Coalition on Women and Taxes

Effects on women.—Expresses the belief that eliminating the tax burden on the poor, most of whom are women with dependent children, is essential to any type of tax reform plan.

Believes that none of the proposals eliminates entirely the disparity between the tax on single heads of households and married couples. Recommends that the committee raise the zero bracket amount for heads of households to the same level as married couples and expand the group of low-income earners eligible to receive the maximum benefit of the earned income tax credit.

Opposes provisions which would repeal the tax deduction for two-income-earning married couples.

Opposes provisions which would change the dependent care income tax credit to an income tax deduction. Believes that the credit should be maintained and expanded to include expenses for the care of disabled adults and children.

Supports the administration's proposal to exempt from taxation the value of dependent care assistance provided by employers. Expresses concern over the proposal to tax a portion of employer-provided health insurance. Believes such a provision would be more onerous for lower-income workers than for higher-income workers.

James D. Davidson, Chairman, National Taxpayers Union

In general.—Would support the adoption of the administration's proposal, but believes it could be substantially improved. Believes that the best fundamental tax reform proposal to date is the proposal introduced by Senators DeConcini and Symms (S. 321) which is based on a plan developed by Stanford University economists Robert Hall and Alvin Rabushka.

States that the administration's plan is an improvement over the present tax system because: (1) it reduces marginal tax rates for both individuals and corporations; (2) it would increase Government accountability; (3) it would eliminate the tax burden on those below the poverty line and would greatly reduce the burden on the working poor; (4) it could help reduce interest rates; and (5) it would be less sensitive to inflation because of indexing.

States that the committee should change the administration's proposal by further reducing tax rates, allowing a tax credit rather than a deduction for each personal exemption, and reducing the tax incentives for borrowing, particularly consumer borrowing.

Joseph Goffman, Staff Attorney, Public Citizen's Congress Watch

In general.—Believes that the administration's plan is a significant improvement over present tax law but is not tax reform. Points to the original Treasury proposal and the Bradley-Gephardt proposal as better examples of tax reform. Urges the committee to adopt its own legislation in lieu of the administration's proposal.

Specific recommendations.—Believes that any tax reform legislation produced by the committee should included: (1) a depreciation system based on the "real cost recovery system" included in the original Treasury proposal; (2) eliminating the distinction between capital gains and ordinary income; (3) eliminating the special treatment of the oil and gas industry; (4) eliminating tax shelter devices; (5) eliminating the investment tax credit; (6) eliminating the research and development income tax credit; (7) eliminating a need for a minimum tax or in the alternative establishing a minimum tax with a rate of not less than 20 percent; and (8) granting income tax credits rather than deductions for individual charitable contributions, personal exemptions, etc.

Opposes the proposed elimination of the dollar tax checkoff for presidential election campaigns. Expresses concern about the influence of special interests in the tax reform process.

Fred Wertheimer, President, Common Cause

In general.—Supports comprehensive reform of the present tax system. Endorses the Bradley-Gephardt proposal and the tax reform plan originally proposed by Treasury.

States that the administration's plan contains aspects that are essential to comprehensive tax reform, but that it also has aspects that undermine its fairness and reduce the prospects for obtaining public acceptance.

Believes that the administration's proposal contains certain positive aspects including: (1) base-broadening and rate reduction; (2) a progressive rate structure; (3) a greater corporate tax burden; and (4) restrictions on business entertainment deductions.

Specific concerns.—Expresses concern that the proposal could reduce the Federal Government's revenue base, either on a short-term or long-term basis. Also expresses concern regarding: (1) the special tax treatment for the oil and gas industry which would have been repealed under the original Treasury proposal; (2) the proposed tax treatment for capital gains; and (3) the proposed tax treatment of fringe benefits. Recommends that the committee produce its own tax reform plan taking features from the administration's proposal, the Bradley-Gephardt, and the original Treasury Department proposal.

Opposes the proposed elimination of the dollar tax checkoff for presidential election campaigns.

Peter L. Baumbusch, Treasurer, Fair Tax Foundation

In general.—Commends the administration's efforts for tax reform. Expresses concerns relating to the tax rate for upper brackets, the minimum tax, and provisions relating to depreciation contained in the administration's proposal.

Supports the Bradley-Gephardt proposal in lieu of the administration's plan.

June 11—Economic Experts

Alan Greenspan, President, Townsend-Greenspan & Co., Inc.

In general.—Supports the proposal. Believes it goes a long way toward eliminating current tax distortions. Says because of the complexity and scope of the proposal, and because all of its parts depend on all the other parts, it should be accepted or rejected with only minor revisions.

Likely economic effects.—Points out that the proposal is too complex to be evaluated easily by existing macroeconomic models. Believes the proposal would reduce investment and economic activity in the short run, but produce a sounder economy in the long run. Commercial real estate construction is likely to decline under the proposal. The proposal would likely depress the prices of owner-occupied housing, but the overall response is apt to be small.

Windfall depreciation recapture.—Points out that the provision does not accomplish its purpose of preserving the effective tax rate on investments after 1981 unless the investment tax credit is also adjusted. Also observes that there are other windfalls from lower tax rates which the proposal would not affect.

Martin Feldstein, Professor of Economics, Harvard University

In general.—Believes there is much to praise in the proposal. Particularly favors extension of inflation indexing to measurement of depreciation and capital gains.

Capital formation provisions.—Believes elimination of the investment tax credit in January 1986 will probably cause a recession in 1986; if the ITC is eliminated, the effective date should be postponed until 1987. To offset the revenue loss, the corporate rate cut could be phased in in 1986 and 1987. Also believes the proposed cost recovery schedules for equipment should be modified to maintain an investment incentive. The windfall depreciation recapture could cause a temporary drop in investment and higher interest rates, it should be eliminated and a different source of revenue found.

Revenue neutrality.—The proposal is, at best, revenue neutral and has a substantial risk of losing revenue. An increase in revenue is needed to cut the deficit to 2 percent of GNP by 1988 and achieve a balanced budget early in the next decade.

The personal exemption.—Says the increase in the personal exemption would cause a \$40 billion annual revenue loss, disproportionately benefit higher income groups, and discourage work effort. Would prefer other ways to target tax relief to low-income taxpayers and families with children.

Henry J. Aaron, Senior Fellow, The Brookings Institution

In general.—Believes the President's proposal would be an improvement over the current tax system. However, believes the proposal can be improved upon, particularly by restoring some of the provisions of the November 1984 Treasury Department proposal. Believes the American people should be told that tax reform will make it easier to increase tax rates to help balance the budget.

Fringe benefits.—Suggests taxing the dollar value of all currently excluded fringe benefits in excess of a specified threshold.

State and local taxes.—Recommends that State and local taxes remain deductible, but only to the extent that they exceed a specified fraction of adjusted gross income.

Revenue neutrality.—If Congress revises the proposal in ways that would lose revenue, suggests a larger increase in the zero-bracket amount and a smaller increase in the personal exemption to make up the revenue. Believes the proposal should not be described as a tax cut.

Richard A. Musgrave, Professor of Economics, University of California at Santa Cruz

In general.—Generally favors the President's proposal.

Revenue neutrality.—Believes the proposal should not cut individual taxes. What is needed is a substantial revenue gain combined with an easing of monetary policy.

Simplification.—Claims reducing the number of tax rate brackets will not benefit the bulk of taxpayers who refer to tax rate tables to determine their tax.

Distribution.—Believes the proposed reduction in tax rates in the top brackets is inequitable. This could be avoided by adding a fourth rate bracket of 50 percent. Further, the first three rate brackets should be raised by 1 or 2 percentage points to achieve revenue neutrality.

Charitable contributions.—Would prefer a credit against tax (set at, say, 20 percent of the donation) rather than a deduction. If a deduction is continued, would favor the change in the treatment of donated assets recommended in Treasury's November 1984 proposal.

State and local taxes.—Would agree to eliminating deductibility if combined with a strengthened grant system, but is hesitant at a time when grants are being cut back.

Capital gains.—Favors the treatment in the November 1984 Treasury proposal.

Capital formation provisions.—Favors tax depreciation based on economic depreciation. Favors the dividend paid credit. Believes the President's proposal will be less effective, perhaps substantially so, than the Treasury Department November 1984 proposal in limiting tax shelters.

David F. Bradford, Professor of Economics and Public Affairs, Princeton University

In general.—Believes the President's proposal is an advance over current law; however, it falls far short of the improvement that could be accomplished. Believes the rate reductions will generate

significant improvements in economic performance. However, if the rate reduction creates a revenue shortfall, even larger economic distortions may occur in the future. Believes it is misleading to call the proposal a tax cut; reduction in individual taxes is to be offset by higher corporate taxes, which are also borne by individuals.

Revenue neutrality.—Believes the proposal may reduce revenue from the combined corporate and individual income taxes in the long-run by about 4 percent, the equivalent of about \$25 billion in 1990.

Capital formation provisions.—Supports the reduction of disparities in effective tax rates across categories of real assets and the indexation of depreciation. Says a credit, rather than accelerated depreciation, should be used to subsidize investment. Accelerated depreciation makes the subsidy depend on the taxpayer's tax bracket. A small annual flat percentage subsidy of a business' undepreciated basis (including inventories) would be neutral across assets of different durabilities and would not be front loaded.

Simplification.—Says the proposal would not achieve simplicity in the tax treatment of businesses and individuals with even moderate complicated economic affairs.

Windfall depreciation recapture.—Under the proposal, owners of existing plant and equipment will obtain a windfall gain. It is appropriate to capture this gain, but compensating for windfall losses would seem equally compelling and there may also be other windfall gains which should be captured.

An alternative proposal.—Would prefer a different tax to the President's proposal. Prefers the tax, proposed by Robert Hall and Alvin Rabushka of Stanford University, which is economically similar to a value added tax, but which has significant advantages over a value added tax.

John H. Makin, Director, Fiscal Policy Studies, American Enterprise Institute

In general.—On a scale of 1 to 10, measuring progress from the current tax system towards an ideal, stable, neutral, growth-oriented system, the President's proposal rates a 3, the Treasury Department November 1984 proposal a 4. Believes the ideal system would be the consumption-based tax outlined in Treasury's 1977 "Blueprints for Basic Tax Reform."

Believes the best features of the President's proposal are the lower and more uniform marginal tax rates, ending the deductibility of State and local taxes, reduced tax burden on the poor (but would prefer a credit, rather than larger exemptions), and retention of individual bracket indexation. Believes the worst features are an uneven use of indexing and lack of indexing of interest, a likely revenue loss, the favored treatment of owner-occupied housing, and a lack of saving incentives.

Effect on saving.—Believes the shift of the tax burden from individuals to corporations will reduce the savings rate.

Capital gains.—Believes it would be better to treat capital gains as ordinary income while allowing symmetrical treatment of gains and losses.

Capital formation provisions.—Believes repeal of the investment credit is a necessary part of a plan to broaden the base, reduce

rates, and equalize effective tax rates across investment categories. Believes revision of ACRS will produce real economic gains.

Nariman Behraves, Vice President, U.S. Services, Wharton Econometric Forecasting Associates, Inc.

Macroeconomic effects.—Believes the deficit will rise in the first 5 years under the proposal. The proposal will result in higher consumer spending and GNP and lower unemployment. Inflation and interest rates will also be slightly higher. By the end of the decade, lower investment, higher interest rates, and higher inflation will slow growth to the point where real GNP is roughly the same as if the tax plan were not adopted. The macroeconomic results are, overall, quite small.

Revenue neutrality.—Believes the personal tax cut in the proposal is larger than estimated by Treasury. Thus, the revenue shortfall for 1985-90 could be much larger than the \$11.5 billion calculated by Treasury.

Capital formation provisions.—The proposal would reduce the cost of capital for investment in structures and increase it for equipment. Believes the combined impact is to slow investment growth.

Effects on housing and construction.—The proposal would increase the cost of home ownership by a small amount at low-income levels and larger amounts at high-income levels. It would cause a more dramatic increase in the cost of rental housing. Believes construction of rental housing and commercial structures would decline under the proposal, and owner-occupied housing would become more attractive.

Roger E. Brinner, Chief Economist, Group Vice President, Data Resources, Inc.

Macroeconomic effects.—Believes the proposal would tend to create an economy with slightly higher GNP, heavier consumption, and weaker business and residential investment; labor output per hour and real hourly wages would be lower.

Tax shelters.—Believes the special treatment for corporate capital gains is a prime Tax Code distortion motivating much sheltering activity, and if included in the final bill, will generate accusations of unfairness and abuse.

Capital formation provisions.—Believes depreciation indexation is a mistake in the proposal. A substantial distortion and complexity would be added by allowing full interest cost deduction (including the inflation premium) while allowing inflation adjustment of depreciable basis. Believes the proposal is moderately anti-investment compared to current law, because it substitutes low-powered incentives (corporate tax rate cuts) for high-powered incentives (investment credit and accelerated depreciation).

Effect on savings.—Believes the proposal would reduce national savings by \$15-\$20 billion by shifting income away from the corporate sector toward the low-saving household sector.

Effect on labor force.—Believes the proposal would cause the labor force to expand by ½ percent and hours per worker to rise by 2 percent due to lower marginal tax rates.

Leon Taub, Chief Economist, Washington Office, Chase Econometrics

Macroeconomic effects.—Believes the proposal would cause a demand shock which would depress GNP almost 1 percent in 1986. Over half of the shock could be avoided by beginning the personal rate reduction on January 1, 1986.

In general.—Believes the favorable aspects of the proposal are the increase in revenue from the corporate income tax, a more balanced approach to real estate investments, indexing depreciation and capital gains, and restricting tax-exempt bond financing. Unfavorable aspects are the disproportionate tax cut for upper income taxpayers, further acceleration of depreciation deductions, the increased penalty for two-earner families, and the extremely generous treatment of capital gains income. Believes the proposal will cause a reduction in tax motivated construction activities and tax motivated corporate restructurings. Also believes the proposal would change our industrial policy from "protecting losers" to "encouraging winners."

Fringe benefits.—Believes the proposed tax on medical insurance does not accomplish its goal and should be replaced with a provision that taxes medical plans which do not include a copayment requirement of at least 20 percent (up to perhaps 2 percent of income).

Charles R. Hulten, Senior Research Associate, The Urban Institute

Capital formation provisions.—Believes the proposal would be less distortionary in its effects on capital investment than current law, but more distortionary than the Treasury Department November 1984 proposal. Under the proposal, most types of equipment would have an effective tax rate of 17 percent, structures 24 percent, and other types of tangible capital 32 percent. Believes the proposal would result in a 5 percent increase in the demand for corporate tangible capital and a once-for-all increase in the level of corporate output of between 1 and 4 percent.

Norman B. Ture, President, Institute for Research on the Economics of Taxation

In general.—Believes the proposal has a great many negative attributes along with several important pluses. It is difficult to determine whether the proposal would enhance or impede progress toward greater efficiency and economic growth. Believes the proposal would entail extensive shocks and adjustment costs and should be phased in over, say, a 15-year period.

Personal tax rate cuts.—Believes the most important of the proposed tax revisions are the revision and reduction of the tax rate structure combined with the increase in the personal exemption and zero bracket amount. These proposals would reduce the adverse effects of steeply graduated, high marginal tax rates without foregoing tax progressivity.

Capital formation provisions.—Believes an ultimate goal of income tax reform should be the elimination of the corporate income tax. Supports reducing the corporate tax rate and the proposed 10 percent dividend deduction as major steps in this direc-

tion. Also supports the proposed indexation of asset basis for depreciation and capital gains determination. Opposes repeal of the investment credit and replacing of the accelerated cost recovery system (ACRS) by the capital cost recovery system (CCRS). Claims CCRS would not result in more nearly equal effective tax rates for different types of assets. Also claims the proposal would result in less investment in depreciable property.

Windfall depreciation recapture.—Opposes the windfall depreciation recapture. Says if it is included, some way should be found to offset the \$57 billion erosion of business sector gross saving which will surely result.

Capital gains.—Believes the ultimate reform objective should be to exclude capital gains from the tax base, at least to the extent they result in reinvestment rather than consumption. Regards the lower capital gains tax rate in the proposal as a plus and the inclusion of the long-term gain deduction in the minimum tax base as a minus.

State and local taxes.—Opposes the repeal of the deduction for State and local taxes. Claims there is no concept of taxable income which leads to the proposed repeal.

Paul Craig Roberts, Senior Fellow, Center for Strategic and International Studies, Georgetown University

In general.—Criticizes the administration's use of static revenue estimates which do not take into account the effect of taxation on economic behavior. Believes tax reform should be designed to reduce the cost of labor and capital and make American labor and manufacturers more competitive. Criticizes use of the tax system for redistribution.

Joseph J. Minarik, Senior Research Associate, The Urban Institute

In general.—Favors the general approach of broadening the base and lowering the tax rates to reduce economic distortions and encourage productive activity.

Revenue neutrality.—Believes the tax reform proposal should be designed to be revenue neutral. Supply side responses to tax cuts should not be relied upon to make up for a tax cut. Reviews the evidence regarding the effects of the 1981 tax cut and claims that supply side responses were insufficient to yield additional revenue.

Michael J. Boskin, Professor of Economics, Stanford University, and Chairman, Center for Economic Policy Research

In general.—Believes fundamental tax reform should move toward a consumed income or cash flow tax or value added tax. If the income tax is retained, believes strong saving and investment incentives are imperative. Believes the increased personal exemption and zero bracket amount will remove a substantial number of low-income households from the tax rolls, and this is a big step toward fairness and simplicity. Supports base broadening, in general, including ending the deductibility of State and local taxes (but, believes a phase-in may be desirable). Believes if reform is enacted, the new system should be left unamended for many years to allow some stability in the tax structure.

Revenue neutrality.—Believes there is a real likelihood of revenue under the proposal falling substantially short of current law revenue.

Capital formation provisions.—Believes the elimination of the investment credit and limitation of the accelerated cost recovery system (ACRS) are not fully offset by tax rate reduction in their revenue impact or their impact on investment. Believes the indexation of depreciation makes the corporate tax much more complex.

Windfall depreciation recapture.—Believes the recapture provision might have a deleterious impact on investment planning because of the precedent it sets.

June 12—Representatives of Major Labor Organizations

Lane Kirkland, President, American Federation of Labor and Congress of Industrial Organizations

In general.—Strongly supports tax reform and tax simplification. Endorses provisions removing most poor Americans from tax rolls. Says key test of tax reform is extent to which it diminishes present discrimination against earned income, but that much of President's proposal fails that test.

Taxation of worker benefits.—Urges committee to reject proposals to tax employer-paid health care, unemployment benefits, workman's compensation, and black lung benefits.

Business taxes.—Recommends that committee keep corporate tax rates higher than proposed, strengthen corporate minimum tax, curb tax privileges of oil and gas industry, establish depreciation system recommended in original Treasury proposal, change foreign tax credit to a deduction, reject proposal of a 10-percent deduction for corporate dividends, and eliminate tax incentives for hostile takeovers and mergers.

Individual taxes.—Urges committee to add more brackets for higher income individuals, eliminate most favored tax shelter device by taxing large partnerships as corporations, establish an effective minimum tax, tax capital gains in the same manner as earned income, continue deduction for job-related expenses, and retain deduction for State and local taxes.

Gerald W. McEntee, International President, American Federation of State, County and Municipal Employees

In general.—Advocates reform of the tax system based on the principles of progressivity, fairness, and federalism. But says President's proposal would simply result in further budget cuts. Criticizes revenue loss that would result from depreciation proposal and proposed reduction in maximum tax rate.

Says proposal provides no real relief for low-income wage earners. Opposes provisions taxing health benefits, unemployment compensation, workers' compensation, and black lung benefits, as well as proposal to convert child care credit to a deduction.

State and local taxes.—States that proposed change to eliminate the deductibility of State and local taxes would put a severe fiscal strain on States and force service cuts, make State and local taxes more regressive, and set off urban/suburban competition.

Albert Shanker, President, American Federation of Teachers, AFL-CIO

State and local taxes.—Believes that the loss of Federal deductibility of State and local taxes would cause a serious erosion in education's tax base and bring about a crisis in education financing.

Stresses that State and local tax deductions are a key to improving education and many other public sector contributions to the Nation's economic growth.

Points out that if deductibility of State and local taxes is lost, inequity would be created as support for private education stays tax deductible while support for public education becomes taxable.

Life support benefits.—Opposes imposition of new taxes on benefits such as health insurance, workers compensation, black lung benefits, and unemployment compensation.

James B. Booe, Executive Vice President, Communications Workers of America

In general.—States that the proposed tax package is a valuable first step in formulating a comprehensive tax reform program. Commends the President for beginning to restore some balance between individual and corporate taxpayers and for protecting poverty-level workers from taxation. States that more should be done to accomplish true tax reform.

Effect on middle-income taxpayers.—Asserts that proposal threatens to destroy the progressivity of the tax system and to impose higher taxes on most middle-income taxpayers and families. Urges committee to reject the proposed drastic reduction in marginal tax rates for the well-to-do, the drop in capital gains taxation, and the proposed tax on employer-provided health care benefits. Criticizes the elimination of State and local tax deductibility, stating that it would seriously threaten the provision of services and reward those States which rely on more regressive revenue raisers.

Urges committee to retain dependent care tax credit for the reason that child care is a necessary expense of working.

Richard W. Cordtz, International Secretary-Treasurer, Service Employees International Union, AFL-CIO, CLC

In general.—Advocates comprehensive tax reform. States that a fair tax system should be based on the ability-to-pay principle. Says present system has become increasingly unfair, as taxes have shifted away from unearned income and onto earned income.

President's proposal.—States that President's proposal contains laudable features but falls disappointingly short of comprehensive reform. Praises increases in personal exemption, zero bracket amount, and earned income tax credit, but strongly opposes taxation of health benefits. Stresses that health care tax will lead to cutbacks in health benefits and impair the ability of working people and their families to achieve and maintain access to quality health care.

State and local taxes.—Opposes repeal of deduction. Says repeal would further dismantle network of vital social programs and threaten fiscal and economic stability of State and local governments.

Revenue sources.—Urges committee to adopt depreciation system proposed in Treasury I, and to impose maximum tax rate of 40 percent on wealthy individuals and corporations.

Robert E. Juliano, Legislative Consultant, Hotel Employees and Restaurant Employees International Union, AFL-CIO

Fringe benefits and entertainment expense deduction.—Stresses that the two major areas of concern are the taxation of fringe benefits and legitimate business-related entertainment expenses. Believes that the taxation of fringe benefits (health care benefits) is not fair, simple, or growth-oriented. Points out that some of the items traded off in the original proposal should be looked at as possible alternatives to this tax. Vehemently opposes proposal to limit deductibility of travel and entertainment expenditures. Says this could cause sharp decline in employment in hotels, restaurants, and some entertainment sectors and a loss of 50,000 to 80,000 jobs.

Dick Warden, Legislative Director, International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW)

In general.—Believes that tax reform could lead to a great improvement in the fairness of our Tax Code, but warns against its use to reduce Federal and State revenues and to benefit Nation's wealthiest taxpayers.

President's proposal.—Expresses concern about projected revenue loss of President's proposal. Endorses reduction in taxation of the poor, but says plan is unfairly tilted toward the wealthy. Urges higher marginal tax rates for the wealthy.

Taxation of benefits.—Strongly opposes taxation of employer-provided health benefits. States that taxing of health care benefits would make the tax system less progressive since the distribution of these benefits varies only moderately by income. Burden of extra taxes would thus fall disproportionately on middle-income workers and would put some of the working poor back on the tax roll. Also opposes taxation of unemployment and worker compensation benefits. Endorses proposals to retain existing tax treatment of employer-provided life insurance and child care benefits and to exempt employer-provided educational assistance and group legal services benefits.

Retirement savings.—Endorses various features of President's proposal with respect to uniform distribution rules, limits on pension contributions and benefits, premature distributions, 401(k) plans, and repeal of 10-year income averaging. But opposes other measures, particularly increase in spousal IRA, because wealthy will receive disproportionate share of benefits.

Individual taxes.—Flatly opposes repeal of deductibility of State and local taxes, elimination of second-earner deduction, conversion of child care credit to deduction, and elimination of charitable contribution deduction for nonitemizers. Urges retention of credit for political contributions and Presidential campaign check off.

Business taxes.—Says proposed corporate tax increases does not go far enough. Urges rejection of proposals regarding capital gains, depreciation, subsidies to energy industry, and deduction for dividend payouts. But supports repeal of investment tax credit and research and development tax credit.

Harold A. Schaitberger, Director, Department of Legislation and Political Activity, International Association of Fire Fighters

In general.—Vehemently opposes proposal to unify distribution rules for tax-favored retirement plans. States that pensions of fire fighters and police officers, as a result, would be subjected to an additional tax of 20 percent.

Criticizes the repeal of the deductibility of State and local taxes. States that this would lead to reduced fire protection and police security and a decline in public education.

Fringe benefits.—Stresses that referring to employer sponsored benefit plans as "fringe benefits" enormously understates the importance of these plans. Opposes provisions to tax health benefits, unemployment compensation, workers compensation, black lung benefits, and employer-paid death benefits.

Paul R. Locigno, Director, Governmental Affairs, International Brotherhood of Teamsters

In general.—Endorses effort to make tax system simple and fair. Applauds provisions to create a simple three-bracket system, exempt poor people, double the personal exemption, expand IRA's for nonworking spouses, eliminate loopholes, and impose a maximum tax on corporations and individuals.

Also applauds the provisions to stimulate growth, such as reducing the capital gains tax, cutting the corporate income tax rate, establishing a gradual rate for small business, and reducing double taxation of dividends.

Fringe benefits.—Vigorously opposes taxing employer-paid fringe benefits such as health benefits. Says it will do nothing to contain health care costs. Also vigorously opposes repeal of State and local tax deduction and proposal to tax unemployment and disability benefits.

Corporate taxes.—Says present crisis of taxation and revenues is due to irresponsibility of corporate America. Suggests that all corporations be required to pay more in taxes, and that an additional tax be levied on those that have closed their doors in America to exploit low wage structures in Third World countries. Says such corporations sell America short.

June 13, Morning Session—Representatives of Major Labor Organizations

Sol C. Chaikin, President, International Ladies' Garment Worker's Union, AFL-CIO

Agrees that there is a pressing need for reform of the Federal income tax. Criticizes President Reagan for the windfall tax cuts to the wealthy that resulted from 1981 Tax Act. Objects to the President's proposal to reduce maximum tax rate to 35 percent. Strongly opposes President's proposal to tax health benefits. Opposes the proposal to tax worker's compensation, black lung benefits, and unemployment compensation. Strongly opposes proposal to repeal deductibility of State and local taxes. Believes repeal of this provision would lead to relocation of apparel production. Feels a more equitable way to reduce taxes on poor would be to increase zero bracket amount and earned income tax credit.

Moe Biller, President, American Postal Workers Union, AFL-CIO

Wary of legislation labeled tax reform and feels the President's proposal is not fair. Believes both 1981 Tax Act and current proposal are only tax cuts for the wealthy. Will not support any "reform" measure if it adds to the deficit. Specifically opposes the proposal to tax health care benefits and elimination of State and local tax deductibility. Feels the corporate tax has been eroded and the tax burden has been shifted to average wage earners. Suggests that corporate taxation is a good place to raise revenues.

Roxanne E. Bradshaw, Secretary-Treasurer, National Education Association

Agrees that tax reform is urgently needed. Believes President's proposal is an improvement over present law in many areas. Approves of proposal to increase standard deduction, personal deduction, and earned income tax credit. Strongly supports the proposal for permanent exclusion of employer-paid educational assistance and group legal services. Opposes reduction in maximum tax rate, indexation, changes in depreciation and capital gains taxation. Strongly opposes proposal to repeal deductibility of State and local taxes and believes repeal would have extremely detrimental effect on quality of public education. In general, opposes the taxation of employer-provided benefits and specifically opposes President's proposal to tax health care benefits, because of its regressivity. Opposes repeal of two-earner deduction, adoption expenses deduction, and the change from child care tax credit to a child care deduction. Advocates repeal of the partial taxation of Social Security benefits. Opposes repeal of the deductibility of educational travel expenses and the proposal not to permit public employees to participate in 401(k) plans—or cash or deferred arrangements (CODA). Opposes

proposal to repeal the nonitemizers deduction for charitable contributions, the tax credit for political contributions, and the Presidential campaign check-off.

Afternoon Session—Capital Formation Issues

Alan J. Auerbach, Professor of Economics, University of Pennsylvania and Research Associate, National Bureau of Economic Research

Believes that, in many respects, the President's proposal would be an improvement over current law as regards capital formation. Concerned that the proposal does not address the deficit problem and that the proposal is in fact a tax cut. Believes that some of the revenue estimates are questionable and that some of the provisions are selective tax increases, not tax reform. Specifically cites wind-fall tax on excess depreciation as logically inconsistent, since it is not a tax on unanticipated profits but rather just a tax increase after the fact. Agrees, however, that it is one method of raising significant revenue in a nondistortionary way.

Feels, in general, CCRS would increase incentives to invest and promote better allocation of investment among different types of capital assets. Believes President's proposal more favorable to investment than the original Treasury proposal. Argues that President's proposal for taxation of capital gains will not promote investment in high risk ventures, but is an ill-conceived incentive for tax avoidance. Emphasis should be placed on a more appropriate means of deducting capital losses. In concluding remarks, reemphasizes the proposal is a tax reduction and that one should not expect too much from the investment incentives in the proposal since the effective tax rate on U.S. fixed investment is very low by postwar standards.

Joel Prakken, Vice President, Laurence H. Meyer & Associates, Ltd.

States that changes in the President's proposal reduce some of the risks posed by original Treasury proposal. Estimates that President's proposal would still adversely affect economic performance in short run. Proposal would raise capital costs and discourage capital accumulation. Largest cost increase for business equipment and housing, moderate cost increase for consumer durables and business structures, negligible change for inventories. Indicates empirical evidence suggests that incentives from reduced tax rates merely offset removal of specific incentives. Economy would be weaker and investment lower during first 5 years after implementation of President's proposal.

Ernest S. Christian, Jr., Patton, Boggs & Blow

Argues President's reform proposal is two bills, a reduction in tax rates and a major tax increase. Tax increase would drastically rearrange tax burden. States heaviest burden would be on investment in equipment. Argues repeal of investment tax credit and replacement of ACRS with CCRS would reduce economic growth and employment. Opposes proposal for recapture tax on prior depreciation. States CCRS dependent on indexing provisions and that these provisions might be subject to change at later date. Argues if in-

dexing is changed CCRS would be a disaster. Indicates adoption of CCRS would put U.S. firms at a disadvantage in international competition.

Kenneth L. Lay, Chairman and Chief Executive Officer, Houston Natural Gas Corp.

Supports the goal of tax reform but believes the President's proposal has some elements that are anti-capital formation. Specifically concerned about repeal of investment tax credit and ACRS, and treatment of interest deductions as a tax preference item. States that these changes would so reduce the profitability of their capital expansion program that some contemplated projects might not be undertaken. Considers the proposed windfall tax on excess depreciation as punitive against capital intensive industries. Feels that President's proposal has some positive aspects; for example, preservation of intangible drilling costs.

Frank W. Luerksen, Chairman, Inland Steel Co.

Applauds the general goals of the President's tax reform proposal. Believes, however, that the proposal is biased against capital intensive industries and is therefore unwarranted and dangerous. Argues that U.S. industries are at a competitive disadvantage when competing with principal trading partners because of the trade and tax policies of foreign governments. Passage of President's proposal will increase this disadvantage and lead to a reduction in consumption of U.S.-produced steel. Specifically opposed to elimination of investment tax credit and addition of new alternative minimum tax. Argues critical issue in Government finance is elimination of Federal deficits, not tax reform.

Walter McConnell, Past General Chairman, and Chairman, Government Relations Committee, Financial Analysts Federation

Suggests that the President's proposal would increase efficiency of capital allocation process and net effect would be positive on capital formation. Strongly supports reduction in tax rate on capital gains. States this would improve mobility of capital and help reduce competitive disadvantage of U.S. companies compared to major trading partners. States that increase in realizations will offset rate reduction so net effect will be revenue neutral.

Supports tax rate reductions for individuals and corporations and the increase in limits on spousal IRA's. Opposes proposed limitation on 401(k) contributions. Believes 10 percent dividend paid deduction is a modest first step towards eliminating double taxation of corporate dividends. Has mixed views regarding elimination of investment tax credit and changes in depreciation. Agrees that lowering tax rates is preferable to subsidizing specific industries but situation is more complex since United States competes in global market. Suggests these incentives be phased out over a long period.

Charles E. Walker, Chairman, American Council for Capital Formation

Supports general goals of President's tax reform proposal. Believes horizontal equity will slightly improve. States proposal would

simplify taxes for individuals but make business taxes more complex. Does not believe the proposal, in practical terms, is revenue neutral. Indicates greater reliance on hidden taxes inconsistent with tax reform. Supports cuts in capital gains taxation and indicates this would increase savings. Commends proposal for 33 percent corporate tax rate but states positive aspects of rate reduction would be offset by other changes in taxation of business investment. Argues President's proposal to raise taxes on business could push economy into recession and higher employment.

Bernard McKenna, Chairman, American Association of Equipment Lessors

Supports the general concept of tax reform. Argues against repeal of the investment tax credit and indicates that repeal would increase the cost of equipment. States lower corporate tax rates would not compensate for loss of investment tax credit. Opposes using tax preferences as the base for corporate minimum tax. Cites President's proposal for a windfall tax on excess depreciation as inconsistent and unfair. States President's proposal eliminates or reduces all investment incentives and amounts to a shift from taxing labor to taxing capital.

Ron Connolly, Executive Vice President, Connell Finance Co.

States President's proposal would not be industry neutral nor revenue neutral. Proposal would shift support away from capital intensive industries towards high tech and service industries. Argues proposal would penalize basic industry and force U.S. companies to compete at a disadvantage in world markets. States proposal would dramatically increase the cost of short-lived assets.

June 14—Capital Formation Issues

David Bossen, President and Chief Executive Officer, Measurex Corp., for the American Electronics Association

In general.—Generally supports the President's tax reform proposal, although concerned about some specific provisions. Emphasizes importance of enacting a package this year to minimize postponement of economic decisions.

Features concerning savings and growth.—Strongly supports retention of capital gains tax differential (of at least 50 percent). States favorable capital gains treatment crucial to high-tech industry, creating jobs, generating growth, and improving international competitiveness. Also supports extension of R&D tax credit, retention of 401(k) plans and continuation of tax-free status for employer-provided education assistance. Argues that 12-year life for computing recapture of depreciation is too long. Asserts failure of plan to assess proper depreciable life span for high-tech equipment which is typically obsolete in 2 to 5 years. Opposes per country limitation on foreign tax credit and abolition of investment tax credit. Favors alternative minimum tax in principle but opposes inclusion of R&D expenses in alternative minimum tax base (not part of administration proposal but features in H.R. 2424).

James R. Swartz, General Partner, Accel Partners, Princeton, NJ, Member of the Board, National Venture Capital Association

Taxation of capital gains.—Primary interest is maintaining capital gains differential and lower tax on capital gains. Supports administration proposal because it does so. Concerned that elimination of State and local tax deductions effectively raises State and local taxes on portion of income that is capital gains. Also concerned that the corporate gains rate remains at 28 percent. Claims administration's proposed treatment of capital gains will increase job creation, increase tax revenues, improve balance of payments, and enhance innovation.

Jesse Cornish, Chairman, Industry Council for Tangible Assets

Taxation of capital gains.—Supports administration's tax reform proposal concerning taxation of gain realized on the sale of investment assets. Most important are continuation of favorable capital gains treatment and continued applicability of that treatment to transactions in nondepreciable assets.

Argues special treatment appropriate due to (1) taxing of gain at higher rates due to bunching of gain in single year under progressive tax structure, (2) the existence of otherwise taxable inflationary gains, and (3) need to induce holders of assets to realize gains to collect tax revenue on them.

Warns against temptation to distinguish between productive and nonproductive assets in applying capital gain treatment. Argues such distinction is neither economically nor practically justifiable.

Robert E. Mercer, Chairman and Chief Executive Officer, Goodyear Tire & Rubber Co., and Co-Chairman, Coalition for Jobs, Growth, and International Competitiveness

In general.—Supports the concept of tax reform but opposes reform that harms the economy's manufacturing base.

Concerned with: (1) repeal of the investment tax credit, which increases the cost of productive equipment with negative consequences for investment and international competitiveness; (2) adoption of capital cost recovery system which lengthens the time to recover the useful economic lives of equipment; and (3) the adoption of depreciation recapture, which penalizes firms for taking advantage of tax cuts embodied in the 1981 tax bill.

Robert M. Kavner, Senior Vice President and Chief Executive Financial Officer, AT&T

In general.—Supports broad concept of tax equity and simplification. Hopes tax reform efforts will not distract attention from bigger problems of budget and trade deficits. Feels major shifts in tax policy should be preceded by careful measurement of their impact on the economy and phased in slowly to allow industrial base to adjust.

Depreciation recapture.—Wants change in "windfall" recapture provisions. Argues it is a retroactive tax on past incentives. Maintains it will drain resources now targeted for reinvestment.

Depreciation provisions.—Believes new capital cost recovery system a step in the right direction but does not properly classify communications equipment. Such equipment now equivalent to computers and warrants shorter depreciable lives.

Investment tax credit.—Opposes repeal of investment tax credit. Claims repeal raises capital costs to detriment of U.S. international competitiveness.

Effect of proposal.—Asserts proposal will have chilling effect on new investment, increase unemployment, and hinder response of U.S. industry to challenge of foreign competition.

Charles Stewart, President, Machinery and Allied Products Institute

In general.—Opposes massive and immediate overhaul of the tax system. Prefers continuous surveillance and adjustments to the tax system on an incremental basis. Believes special attention is due to the effects of change on capital formation, international competitiveness, and the timeliness of changes in the context of business recovery.

Capital cost recovery system.—Opposes new depreciation schemes. Argues that system should favor equipment and that standards of neutrality are abstract. Maintains that layering new system on old revisions causes unnecessary incremental complication.

Depreciation recapture.—Opposes recapture of accelerated depreciation. Disagrees that gains are windfalls. Asserts that recapture provision increases taxation on areas already hurting from reform.

Points out such provisions have no precedent, could be extended to other areas such as installment sales, and that States might do it, too. Says in addition that the gains aren't really realized and that the provision is an ex post facto application of law.

Investment tax credit.—Opposes repeal of investment tax credit. Argues that tax shelter abuses are not reason enough for its abolition. It should be retained or at least modified and that the mechanism be left in place for future use.

Charles Sporck, President, National Semiconductor Corp., for Semiconductor Industry Association

Tax reform and the cost of capital.—Believes capital cost recovery system is improved over ACRS and RCRS proposal except that CCRS proposal misclassifies semiconductor manufacturing equipment lives. Argues economic lives are 5 years or less. Argues proposed study mechanism for reclassifying depreciable assets too slow.

Warns abolition of investment tax credit is step backward. Asserts that ITC is neutral among assets, easy to employ and has powerful effects on the economy.

Depreciation recapture.—Argues that proposal to recapture windfall depreciation benefits is flawed. Asserts that use of straight-line depreciation and lives under section 312(k) is unrealistic and constitutes a penalty. Suggests that economic depreciation such as in original Treasury proposal be used to compute recapture.

R&D tax credit.—Supports extension of R&D credit but desires longer term commitment than 3 years. Says short-term extension not consistent with long-term planning.

Tax treatment of foreign operations.—Supports retention of foreign sales corporations but opposes recharacterization of portion of export income as U.S.-source income which increases taxation of exports. Argues that per country limitation on foreign tax credit is arbitrary and complex.

Edward I. O'Brien, President, Securities Industry Association

Incentives to save and invest.—Maintains that incentives to save and invest are important to the economy and that lowering taxes on investment income is crucial to risk-taking. Favors retention of differential taxation of capital gains. Argues that effectiveness of 1978 and 1981 tax cuts is proven both in terms of stimulus to venture capital and for tax revenue. Sees differential tax treatment as consistent with gains treatment abroad.

Supports dividend deduction and increase in spousal Individual Retirement Account limit. Favors retention of 401(k) plans but opposes limitations on contributions and the inclusion of IRA contributions in the limitation. Expresses satisfaction that original plan to tax limited partnerships with more than 35 partners as corporations has been abandoned. Asserts that new rules in place will eliminate most abusive shelters and that partnerships are an important method of raising capital. Warns that care must be taken to prevent restrictions on private-purpose public bonds from hindering financing to mostly public-purpose projects.

David Silver, President, Investment Company Institute

Saving and capital formation.—Endorses spousal IRA limit increase. Argues that IRA's are important to saving and capital formation. Opposes counting IRA contributions towards contribution limits in 401(k) plans. Asserts this hurts IRA's which should be the preferred vehicle. Argues that contribution limits and loan and withdrawal limitation on 401(k) plans serve no useful purpose and hinder saving and capital formation.

Supports capital gains tax differential. Argues that indexing provision should also be extended to corporations.

Mutual funds issues.—Not clear whether mutual funds and other passthrough entities will get indexing election. Believes update of subchapter M needed to clarify and address issues raised by financial innovations and limitations on mutual funds currently imposed by tax law.

Herbert B. Cohn, Chairman, Committee for Capital Formation Through Dividend Reinvestment

Extension of section 305(e).—Urges permanent extension of provision providing for deferral of current taxes on limited reinvestment of dividends in qualified plans under section 305(e) (as under H.R. 654). Maintains it is a cost-effective method of encouraging saving, that it targets resources to high-growth firms, that middle-income taxpayers, due to limitations, are primary beneficiaries, and that it reduces the double taxation of dividends.

Margaret Cox Sullivan, President, Stockholders of America, Inc.

Tax reform proposal as it relates to shareholders.—Believes reduction in rates of taxation of unparalleled importance, giving people more freedom to do what they want with their income. Says that incentives to encourage investment paramount and tax system should stimulate equity investment.

Supports reduced rate of taxation on capital gains income but argues that tax on capital gains should be zero.

Maintains that 10 percent dividend deduction is a good step and hopes it will eventually be 100 percent. Suggests a 10 percent tax credit to corporate shareholders for taxes already paid by corporations.

Favors extension of dividend reinvestment plans. Argues such plans reduce amount of debt financing which endangers solvency of corporations.

June 17—Tax Simplification Aspects of Tax Reform

K. Martin Worthy, Chairman, American College of Tax Counsel

In general.—States there is urgent need for tax reform and simplification; present complexity has led to loss of respect. Believes sole purpose of Tax Code should be to raise revenue. Says special exceptions have diminished the tax base and led to charges that the system is unfair.

Proposes adoption of transitional rules which will ease the economic dislocation caused by the reduction and elimination of tax breaks, but urges that the transitional rules lead to permanent change. Believes reform will be effective only if it truly broadens the tax base and if it will be immune from the frequent changes that have plagued our tax laws in recent years.

James B. Lewis, Chairman, Section on Taxation, American Bar Association

In general.—States support for reform that would provide a comprehensive and stable base and simplify Federal tax laws. Asserts that tax preferences are often not the best way to promote economic or social policies because they create unfairness and adversely affect voluntary compliance.

Points out that the capital gains preference is one of the largest sources of inequitable treatment of similarly situated taxpayers and of complexity and instability in the tax system. Urges consideration of alternatives to preferential capital gains tax rate.

Says that major reform should be followed by a moratorium on tax legislation.

Albert B. Ellentuck, Chairman, Tax Division, and Ray J. Groves, Chairman of the Board, American Institute of Certified Public Accountants

In general.—Endorses Congress' efforts to simplify the tax system. Supports a moratorium on tax legislation while a comprehensive plan to improve the tax laws is developed.

Believes the President's proposals are more simple overall than the Treasury Department's but notes there are still many areas of complexity remaining: the revised alternative minimum tax, new depreciation rules, basis indexation, recapture of prior ACRS cost recovery, the investment interest limitation, mandatory use of per-country limit for foreign tax credits, and the requirement that many taxpayers change to the accrual method of accounting.

Accrual method of income tax payment.—Points to chapter 8.03 of the President's proposal as an example of a provision that increases the complexity of the tax system. Chapter 8.03 would require persons working for service organizations to pay income tax before receiving it if the business they work for has more than \$5

million of gross annual receipts or if it regularly uses an accrual method of accounting.

Says this provision if adopted would make compliance difficult, create another area of potential conflict with the IRS, and require the revision of most partnership agreements. Points out the unfairness of discriminating against those who organize in partnership form while others could continue to use the cash method, and the unfairness of taxing professional individuals on service income before it is received, while most individual taxpayers are taxed on income received.

Robert Grille, President, Board of Governors, National Society of Public Accountants

In general.—Says that present system is too complex, due in part to frequent changes in tax laws. Believes Congress should consider tax proposals that have revenue impact now, and set aside proposals that create structural changes for consideration over the next few years. Suggests that goals of fairness and simplicity may be somewhat contradictory.

Administration proposal—specific recommendations.—Recommends unified treatment of depreciable property instead of the complicated depreciation schedules currently proposed. States President's proposal to allow "miscellaneous deductions" only above 1 percent of adjusted gross income will hurt the lower-middle-income itemizer who pays union dues or who must pay for business uniforms. Suggests abolishing percentage depletion deduction. Would also abolish the immediate expensing of intangible drilling costs, instead providing a direct subsidy from the budget to the extent necessary to protect national security.

Believes \$5,000 cap on the deductibility of interest other than that on the taxpayer's principal residence will deter people from taking out loans for education and otherwise adversely affect the economy. States that in the interest of fairness, the maximum corporate tax be increased to 35 percent to make it the same as the maximum individual rate. Would postpone making decision on the taxation of inside build-up of life insurance policies because of the issue's complexity.

Donald M. Tannenbaum, President, New York State Society of Certified Public Accountants

In general.—States that the average taxpayer's primary concern is that the tax system favors the rich. Claims President's proposals will only increase that perception by reducing the top income bracket from 50 percent to 35 percent. Feels that whatever simplification the proposal offers the individual taxpayer is more than offset by additional complexities the provisions create for business.

Business income tax proposals.—Says a number of administration proposals will complicate taxes for business, such as the provisions which require or allow optional use of indexing, the requirement that many service businesses pay tax on the accrual basis if they use accrual basis financial statements, the maintenance of a qualified dividend account for the dividends paid deduction, and additional recordkeeping requirements for excess depreciation recapture.

Trusts and estates tax proposals.—Says that proposed rules creating mandatory distribution of nongrantor trusts and estates would complicate their administration and frustrate their purpose.

Sees many limitations in the idea of achieving simplicity by trading deductions and credits for low tax rates. States that loss of State and local tax deductions will affect different regions of the Nation and different industries unequally; that the loss of business meal deductions will hurt restaurants in the large cities; and that foreign countries will attract American capital by offering incentives equal to those repealed in the United States.

Urges a moratorium on tax legislation if a major tax bill is enacted this year.

Herbert Tuteur, C.P.A., Meisel, Tuteur, Turkel, Lewis & Co.

Individual tax proposals.—Endorses proposal for creating return-free system for individuals and families below a certain income level. Supports elimination of State and local sales tax deduction. Opposes elimination of State and local real property tax deduction. Believes this proposal would accelerate the rate at which large corporations would relocate, would increase competition between the States, and erode the tax base in the high tax States which also contribute substantial revenues to the Federal Government.

Business tax proposals.—States that new depreciation rates and elimination of investment credits will impede investment. Favors retaining relatively short depreciation rates for real property to stimulate production facilities and office building construction but recommends longer recovery periods for property used purely for tax-sheltering purposes. Concedes that corporate tax rate could not be reduced to 35 percent if old depreciation and investment tax credit rules remained in effect.

Philip Storrer, C.P.A., Professor of Accounting and Taxation, University of California at Hayward

In general.—States that the President's proposals fall far short of the single flat-rate tax system with no deductions that the public wants and that is necessary to solve the tax system's ills. Recommends treating capital gains and losses as ordinary income along the lines of the Treasury I proposal. Believes sanctions should be instituted to penalize the IRS for delays, negligence, and taxpayer harassment. Also recommends a one-time tax amnesty period to allow delinquent taxpayers to come forward to pay back taxes without fear of criminal and penalty sanctions.

Edward Mendlowitz, C.P.A., Siegel, Mendlowitz & Rich

In general.—Opposes administration's proposal. Says many provisions will further complicate the system, such as the indexing of capital gains, the requirement that many service companies pay taxes on the accrual basis, the reduction of miscellaneous deductions by 1 percent of adjusted gross income, the proposal to recapture accelerated depreciation deductions, the retention of five tax brackets for businesses, the taxation of health benefits, the cap on deductions for business lunches, and the repeal of the deduction for property taxes.

Feels tax system would best be served by enforcing existing laws rather than by introducing massive changes. Approves of the three-bracket rate structure but believes major areas of the proposals must be considered more fully. Feels elimination of State and local tax deduction should be phased in gradually, if at all.

Business income tax proposals.—States that legitimate business expense deductions should be permitted. Points out unfairness of reducing the entrepreneur's pension contribution deduction to the same level as the employed person's. Says immediate elimination of the investment tax credit will have adverse effect on long range business planning.

David J. Silverman, Co-Chairman, Government Relations Committee, National Association of Enrolled Agents

In general.—Generally supports tax reform proposals provided that Congress and the administration will guarantee an end to yearly revisions of our Tax Code. Criticizes provisions that will reduce the marginal tax rates of the very rich while the average taxpayer will continue to pay the same amount as under the old system. Favors the elimination of State and local tax deduction because it will force high tax States to reduce State taxes. Warns that the President's proposal to eliminate the present penalty for late payment and replace it with a cost of collection charge will create potential for IRS abuse.

Richard H. Fink, President, Citizens for a Sound Economy

In general.—States that President's proposal, which would still require about one-third of all taxpayers to file the long form, does not simplify the tax system. Proposes a tax system that treats all income alike and taxes every citizen at the same rate. Offers the 10/10/10 plan which calls for a 10 percent tax with no deductions, a 10 percent cut in Federal spending, and a 10 point taxpayers' bill of rights.

Robert Capozzi, Director of Tax Policy, and Jeffrey C. Smith, Policy Analyst, Citizens for a Sound Economy

In general.—Sees the President's plan as only a modest improvement over the present system. Believes tax reform must be coupled with deficit reductions to prevent the likelihood of future tax increases. States that nothing less than a complete revolution in our tax laws will accomplish the goals of reform. Proposes the 10/10/10 plan which entails a 10 percent flat individual and corporate income tax, a 10 percent budget reduction, and a taxpayers' bill of rights to restrict the power of the IRS to seize property and otherwise harass taxpayers.

Kenneth White, President, Virginia Taxpayers Association

Internal Revenue Service proposals.—Highly critical of Internal Revenue Service request for permission to create a return-free tax system. Believes granting the IRS the ability to systematically gather and computerize information on citizens violates Fourth Amendment guarantees against unreasonable search and seizure and the Ninth and Tenth Amendment rights to privacy. In addition, says that the proposal will weaken the Privacy Act of 1984,

which requires government to collect information directly from the individual, if possible, when such information may result in adverse determinations about an individual's rights. Fears such a system will lead to oppressive, Orwellian government control.

Also feels the public will not tolerate an IRS-computed and assessed income tax if the public perception grows that the Sixteenth Amendment (giving Congress the power to collect income tax) was never ratified.

June 18, 1985—Impact of Tax Reform on Production of Energy

Hon. Joe Barton, Member of Congress (Texas)

In general.—Supports the major provisions; but prefers to go further and implement a flatter tax with lower tax rates and less in deductions.

Investment incentives and the oil and gas industry.—Is reluctant to change the Tax Code in a way that negatively affects the oil and gas industry. States that, other than tax law, there is no mechanism to attract investment in high cost and high risk oil and gas exploration and development, and that oil and gas is the most heavily taxed major industry. Relates that the oil and gas industry is retrenching, and a lack of capital has resulted in a steep decrease in exploration and production in recent years.

Percentage depletion and intangible drilling costs.—Argues that repeal of percentage depletion and intangible drilling cost expensing would result in an immediate decline in oil and gas production, just as past cuts in percentage depletion allowances reduced production. Regards a 5-year phaseout of percentage depletion—to allow time for adjustment—combined with a cut in the corporate tax rate as an equitable compromise.

IRA withdrawal penalties.—Asserts that the oil and gas industry would also be hurt by the proposed increases in the penalty for early withdrawals from IRA's, because attempts to reduce work forces through early retirement offers would be less attractive.

Charles J. DiBona, President, American Petroleum Institute

Tax reform and the petroleum industry.—Asserts that the petroleum industry is not specially favored by tax preferences, breaks, and loopholes, and that it pays its share of Federal taxes. The tax reform package under review would raise taxes on the petroleum industry still higher and reduce domestic petroleum production in a few years. Then, the current world oil surplus will be gone and, even under present tax law, we will be importing up to half the petroleum we consume.

Intangible drilling costs (IDC).—States that expensing of IDC's helps both majors and independents find and produce oil. Argues that elimination of IDC expensing would mean the loss of 900,000 barrels a day oil equivalent in 1990 and 1.6 million barrels per day by 1995, which would raise oil prices and our oil import bill, cut GNP, and increase unemployment and the Federal budget deficit.

Other provisions.—Criticizes other elements of the tax package, as follows: The recapture provision arbitrarily penalizes those whose heavy investment helped the recent economic recovery; phasing out of percentage depletion reduces an important incentive for independent oil producers; elimination of the investment tax credit will discourage investment and job creation across several

sectors of the economy; and the proposed new rules for foreign source income will weaken U.S. companies in competition abroad.

Jon Rex Jones, President, and S.J. Jansma, Jr., Chairman, Tax Committee, Independent Petroleum Association of America

In general.—Asserts that present oil and gas provisions properly, effectively, and efficiently ensure national energy security by encouraging domestic energy production.

Percentage depletion.—Contend that the oil and gas industry differs from other types of economic activity and therefore is entitled to "differential" tax treatment: (a) oil and gas operators must discover their capital assets; (b) oil and gas properties have no residual value; (c) there is a capital gain element to production income that reflects entrepreneurial risk; and (d) replacement costs get more expensive over time.

Intangible drilling costs (IDC).—Assert that expensing of IDC is justified because these costs are analogous to ordinary operating costs in any other business, and should not be a consideration in deciding whether to complete a well.

William R. Goff, Chairman, President and Chief Executive Officer, Sabine Corp.

Intangible drilling costs.—Contends that expensing and deductibility of IDC is appropriate because IDC's have no salvage value, and that the expensing of IDC is needed to provide adequate cash flow for the financing of future oil and gas drilling.

R. Harlan Krumme, President, National Stripper Well Association

Percentage depletion.—Argues that retention of percentage depletion is necessary to maintain the present level of stripper well production; complete loss of percentage would cut the producing life of stripper wells by an average of 3.75 years.

Intangible drilling costs.—Contends that expensing of IDC on new wells is necessary to finance secondary and tertiary recovery projects.

James L. Stafford, Executive Director, National Association of Royalty Owners

In general.—Asserts that the proposal is not fair, simple or equitable as it applies to royalty owners.

Percentage depletion.—Argues that substitution of cost depletion for percentage depletion would entail such enormous data-finding and record-keeping tasks that few royalty owners would be able to afford the effort, and most would lose the depletion allowance completely. Reduction of royalty income would hurt already depressed rural economies.

Kenneth Press Nemzer, General Counsel and Secretary, California Energy Co., for the Geothermal Industry Group

Geothermal energy tax credit.—Asserts that the high risks still associated with geothermal power development necessitate retention of the geothermal energy tax credit, 5-year depreciation of most geothermal equipment, expensing of intangible drilling costs,

and percentage depletion in order for geothermal power projects to attract capital.

Eric Vaughn, President, Renewable Fuels Association

Tax incentives for gasohol/ethanol.—Voiced “unqualified opposition” to the proposed repeal of (a) the gasohol excise tax exemption 7 years before it is scheduled to expire, and (b) the energy investment tax credit for domestic fuel ethanol production. Argues that such changes would discard a cost effective means of replacing petroleum imports with domestically produced energy, diminish Federal Government credibility, and risk collapse of numerous Government-supported projects and loss of the public funds that were committed.

Robert R. Nathan, Economist for the Solar Energy Industries Association

Solar energy tax credit.—“Wholeheartedly supports” the extension and phasing out of the residential and business solar energy tax credits. Believes that this would be “the most responsible approach” to weaning the U.S. solar industry off the existing tax incentives without severely damaging the industry.

William Holmberg, Legislative Director, Solar Lobby

Tax treatment of renewable energy.—Argues that the provisions of Treasury II put renewable energy technologies at a significant disadvantage—by ending renewable energy and conservation tax incentives and modifying depreciation schedules. Suggests energy tax incentives be applied equitably to all energy technologies, and then phased out prudently and fairly

Phillip Van Huffel, President, Industrial Co-Energy System, Inc., and executive Vice President, Enegrid Investment, Ltd. for the Cogeneration Coalition

Depreciation and cogeneration.—Argues that requiring cogeneration plants to be depreciated at 17 percent per year while allowing other industrial and commercial thermal energy production systems to be depreciated at 22 percent per year creates an illogical and inconsistent bias against cogeneration.

Angus Duncan, Vice President of Legislative Affairs and Government Relations, Legislative Chairman, American Wind Energy Association

Tax treatment of renewable energy.—Opposes the removal of the energy investment tax credit for renewable energy and the reduction of accelerated cost recovery benefits to wind energy producers, while indefinitely retaining substantial tax benefits for conventional energy producers. Supports a transition period between old and new tax regimes for all energy technologies.

Norman Steisel, Commissioner of Sanitation, New York City, President, National Resource Recovery Association

Waste disposal.—Asserts that several provisions of the tax reform proposal would raise waste disposal costs associated with taxable borrowings, increase waste disposal project risks by prohib-

iting private participation, and boost payments to private contractors. Adds that the resulting budgetary pressure will lead to continued environmentally unacceptable landfill practices, and increase ultimate disposal costs.

Granville J. Smith, Vice President, STS Energetics Ltd., Member, National Hydropower Association

Cost recovery.—Points out that proposed switch from ACRS to CCRS would initially place nonregulated hydropower projects in a less advantageous depreciation category than most other industrial equipment with which hydropower equipment must compete for investment dollars.

Energy tax credit.—Hopes that the proposed retention of the transition rule for hydropower projects is adopted, and urges that the committee consider transition rules for other proposed changes affecting hydropower projects.

David Blair, for the International Association of Drilling Contractors

Percentage depletion.—Argues that percentage depletion "makes economic sense" because it adjusts for "the capital element" of production income, and for the fact that new reserves are increasingly more expensive to find.

Intangible drilling costs (IDC).—States that expensing of IDC is justified because they are incurred before it is determined that a capital asset (oil and gas reserves) exists, and because it is not possible to conclusively determine the size of the reserves even after completion of a well.

Michael Linn, Vice President, Meridian Exploration Corp. for the Appalachian Producer Coalition

Tax incentives for risk taking.—Asserts that tax incentives to offset high risk are necessary for Coalition members, who are small producers, to raise capital. States that failure to retain IDC expensing and percentage depletion would reduce the number of new wells in the Appalachian region by almost 70 percent.

Gil Goodrich, Goodrich Oil Co., for the Louisiana Young Producers Forum, Louisiana Association of Young Producers and Royalty Owners

Percentage depletion and intangible drilling costs.—Asserts that elimination of percentage depletion will restrict the generation of cash needed for exploration, and repealing or changing the expensing of intangible drilling costs would be an extreme disincentive to their industry.

Francis L. Durand, Vice Chairman of Federal Taxation, Texas Independent Producers and Royalty Owners Association

Tax incentives for exploration and recovery.—States that the tax reform proposal would reduce the drilling activity necessary to find new oil and gas reserves, and the incentives to improve oil and gas recovery techniques. Disagrees with contention that the oil and gas industry pays less than its fair share of taxes, citing study by the Joint Tax Committee.

June 20—Evaluation of Alternative Tax Reform Proposals
(Invited Academic and Expert Witnesses)

Paul R. McDaniel, Professor of Law, Boston College Law School

In general.—Believes that the administration proposal improves the tax base in some cases, but in other areas is less desirable than present law. Observes that under the proposal some individuals who are under the poverty level will nonetheless have a tax liability. Believes this should be changed. Also believes a limited two-earner deduction should be continued to alleviate the marriage penalty at an acceptable revenue cost. Maintains that very little simplification will result from reducing the present 14 tax rate brackets to 3. Believes a fourth rate bracket, higher than the proposed 35 percent, should be added.

Capital gains.—Claims the proposal represents the worst of all worlds in terms of complexity; the present rules would be retained and indexation of basis would be added. Believes gains should be taxed as ordinary income. If the capital gains preference is to be retained, indexation of basis should not be permitted. If indexation is permitted, then debt should be indexed. If the capital gains preference is retained, then the basis step-up at death should be taxed.

Depreciation.—Believes the proposal, when combined with the effects of leverage, may produce greater investment distortions than we have under current law. Maintains the appropriate policy is to impose an annual interest charge on the tax deferral resulting from accelerated depreciation (using economic depreciation as a base). Believes the proposal to recapture the benefits of 1980-86 accelerated depreciation is entirely sound.

Dividend paid deduction.—Believes that, at a 10 percent level, the complexity engendered by the provision is not worth any perceived foot in the door for subsequently more complete integration of the corporate and individual income taxes.

Itemized deductions.—Suggests that the deduction for State and local nonbusiness property and sales taxes could be repealed, and the deduction for income taxes could be converted to a credit (or allowed as a deduction only against the 15 percent tax rate). Alternatively, all itemized deductions could be reduced by some percentage; e.g., taxpayers could obtain a deduction for only 80 percent of their charitable contributions, medical expenses, mortgage interest, and State and local taxes.

Tax shelters.—Believes the proposal will be ineffective in reducing the benefits of tax shelters. Argues that depreciation deductions should be allowed only on the equity investment a taxpayer has in an asset.

Harvey Galper, Senior Fellow, the Brookings Institution

In general.—Believes that the goal of tax reform should be to measure and tax income correctly in an inflationary environment.

Minimum tax.—Believes the minimum tax is complex and largely cosmetic. It will make almost everyone pay some tax, even if only a trivial amount, but it does almost nothing to correct income measurement or to reduce incentives for uneconomic investment decisions.

Tax shelters and arbitrage.—The proposal will reduce the attractiveness of tax shelters primarily due to the reduction in marginal tax rates. The proposed taxation of all real gain from the sale of depreciable and depletable property as ordinary income rather than capital gain also is a constructive change. Believes the depreciation provisions should be lengthened. Argues that the limitation on interest deductions is sensible when underlying investment income cannot be accurately measured. Believes the preferred approach, however, would be to make arbitrage opportunities less attractive by reducing rather than expanding IRAs, by eliminating the capital gains preference, and by allowing the deduction of only real interest.

Isabel V. Sawhill, Senior Fellow, the Urban Institute

Distribution of the tax cut.—Believes the larger tax cut to the very wealthy (over \$200,000 income) under the proposal is an inequity which should be corrected. Believes this should be achieved by broadening the base at the top (through, for example, taxing capital gains at regular rates, but indexing the basis), by adding a fourth bracket with a tax rate of 40 to 50 percent, or by lowering the first bracket rate and lowering the zero bracket amount or personal exemption.

Observes that at the same income levels, one-earner families get a relatively bigger tax break than two-earner families, especially at the middle-income levels where most two-earner couples are concentrated. However, under the proposal, two-earner families with children may pay lower taxes than one-earner families because child care expenses continue to be deductible.

State and local taxes.—Believes that the Federal Government should not provide a stimulus to State and local spending. Believes, however, that in view of the effects of recent recessions and cut-backs in Federal grants-in-aid, any change in deductibility should be introduced gradually.

Economic growth.—Argues that the best way to insure a healthy economy over the longer run is to reduce the Federal deficit. Believes some proposals, such as lower exemptions combined with a higher zero bracket amount or higher tax rates, should be considered. In terms of the effect of tax reform on saving, believes personal tax rates should not be cut at all. Deficit reduction has the greatest effect on saving; most business and personal tax incentives have smaller or more uncertain effects.

Marshall E. Blume, Professor of Finance, the Wharton School, University of Pennsylvania

Taxation of investment income.—Observes that taxpayers who receive investment income on average pay less tax than those who receive wage income. Believes this is unfair. Believes capital gains should be taxed as well as the step-up in basis at death. Maintains that taxation of all types of investment income, including dividends and interest, should be indexed. Argues that the available empirical and theoretical evidence gives no reason to believe that overall savings rates would increase as a result of the proposal.

Individual income tax reforms.—Supports the proposal to consolidate the unearned income of children under 14 years of age with their parents' income for tax purposes. Suggests that the mortgage interest deduction should be classified as a tax preference item. Argues in favor of the treatment of fringe benefits in the November 1984 Treasury proposal.

Corporate income tax reforms.—Maintains that the proposal will make the tax rates among industries more equal, and is therefore desirable. However, the Treasury Department's November 1984 proposal would have more nearly equalized rates and would be in defined-benefit plans.

Hugh Calkins, Partner, Jones, Day, Reavis & Pogue

Capital formation provisions.—Supports the proposed capital cost recovery system (CCRS). Argues, however, that indexing the basis of assets when interest is not indexed and when capital gains are taxed at preferential rates would perpetuate tax shelters, complicate the tax law, and reduce revenues unnecessarily. Supports the dividends paid deduction. Argues that the concept behind the windfall depreciation recapture provision is sound; however, the recapture should apply only to the difference between ERTA and CCRS depreciation, and that individuals should be allowed to elect a deferral of tax rate reduction on income from investment property as an alternative to recapture.

Other business provisions.—Opposes the proposal to eliminate the bad debt deduction. Also opposes proposed requirements to capitalize expenditures affecting income accruing over several years.

Capital gains.—Supports a preferential tax rate for capital gains as a partial offset to the tax preference to debt finance; however, would leave the capital gains rate at 20 percent, not 17.5 percent.

Mortgage interest deduction.—Would limit the deduction to an amount applicable to homes valued at or below a percentage, say 130 percent, of the median value of housing in each State.

**June 24, 1985—Effects of President's Tax Reform Proposal on
Agriculture**

***Hon. E (Kika) de la Garza, Member of Congress (Texas), Chairman,
House Agriculture Committee***

Agriculture.—Supports the concept of tax reform for simplification and fairness but first wants to be sure how reforms will affect agriculture. Is concerned that tax reform not leave farmers worse off, especially during a period of general agricultural depression. Mentions particularly the citrus and livestock industries.

Hon. Berkley Bedell, Member of Congress (Iowa)

Agriculture.—Urges the committee to include in tax reform proposals two ongoing issues in farm taxation, tax incentives that attract nonfarm investors into agriculture and taxes imposed on farmers forced to sell their farms. Suggests limitation on deductibility of farm losses from nonfarm income and repeal of incentives subject to special abuse, such as land-clearing deduction. Proposes relieving insolvent farmers of minimum tax.

Hon. Virginia Smith, Member of Congress (Nebraska)

Agriculture.—Supports President's tax reform proposals for farmers because it reduces taxes for most and eliminates tax incentives attracting nonfarm investors. Wants proposal modified to preserve cash accounting for preproduction period expenses of raising livestock, capital gains treatment of livestock sales, and States' ability to issue tax-exempt bonds to provide agricultural credit.

Hon. Jim Lightfoot, Member of Congress (Iowa)

Agriculture.—Suggests rethinking the use of tax incentives to encourage investment in agriculture. Describes need for his bill exempting insolvent farmers from the alternative minimum tax (H.R. 2277). Urges inclusion of its provisions in any tax reform bill.

Hon. Bill Schuette, Member of Congress (Michigan)

Agriculture.—Approves of goals of President's proposals, especially attempts to limit farm tax shelter investment. Opposes repeal of excise tax exemption for gasohol, capitalization of the expenses of raising cattle, repeal of capital gains treatment for sales of dairy cattle, and use of inventory accounting for dairy herds.

Robert L. Thompson, Assistant Secretary for Economics, U.S. Department of Agriculture

Agriculture.—Discusses need for tax reform and summarizes impact of President's proposals on agriculture. States that impacts will vary depending on type of commodities produced, farm's finances and business structure, etc., but ultimately should produce

more rational investments and reduce tax sheltering. Maintains most farmers will have lower or unchanged income taxes. Says most will have initially higher social security taxes due to broader tax base, diminishing in future when effects of indexed depreciation become more pronounced. Contends that livestock and fruit tree and vine farming will have higher taxes and reduced tax shelter investing.

Discusses each provision of proposal affecting agriculture: tax rate reductions, repeal of investment tax credit and depreciation changes, repeal of capital gains treatment for livestock and phasing out for timber, limitation of interest deductions by limited partners, phasing out of expensing of developing costs, repeal of cash accounting for large farms, and repeal of conservation and land-clearing expense deductions. Gives sample tax computations under proposal for orchard and corn farm.

Macroeconomic effects.—Maintains that because of reduced tax shelter investing and more neutral tax treatment of all investments, general economic conditions will improve. Argues that investment will be down (by 7.5 percent in agriculture), but consumption up so demand for farm products will rise. Points out that all changes are very small.

Neil E. Harl, Charles F. Curtiss Distinguished Professor of Agriculture and Professor of Economics, Iowa State University

Background.—Describes agriculture as unique because it consists mostly of family businesses and is currently in serious financial trouble. Maintains that nation's most serious problem is Federal deficit and that is also the farm sector's most serious problem because it keeps interest rates high and dollar strong. Believes that these factors must be kept in mind in discussing tax reform proposals.

Tax policy and agriculture.—Classifies tax provisions by economic impact into four groups: those that increase production and hence depress prices and benefit consumers; those that reduce the cost of capital investment and encourage substitution of capital for labor; those that alter management behavior; and those that ultimately reduce taxes incident upon taxpayers themselves.

Tax shelters.—Describes how current tax provisions are used to shelter income, especially cash accounting, expensing of preproduction costs, capital gains, and capital recovery provisions.

President's tax proposals.—Describes and evaluates proposed changes in provisions affecting agriculture. Urges further restrictions on cash accounting to prevent tax shelter use, such as limiting use of cash method to those deriving more than one-half of their income from farming or ranching or with at least one family member personally engaged in operating a farm or ranch. Criticizes 2-year limit on expensing preproduction period costs as arbitrary. Considers repeal of investment tax credit and replacement of ACRS depreciation with CCRS to be steps toward economic neutrality, but questions whether permanent storage facilities should not have longer depreciable lives. Thinks that reduction of top individual income tax rate from 50 to 35 percent is too large and will cause further concentration of wealth. Recommends that estate and gift tax be included in any tax reform, that any reforms be

timed so as not to impact farm economy during present farm depression, and that reforms be phased in over 3 years.

Charles Davenport, Professor of Law and S.I. Newhouse Scholar, Rutgers University, Newark, NJ

Tax shelters.—States that farm tax shelters have declined in significance in recent years, now making up no more than 5 or 6 percent of all tax shelter activity and no more than 1 percent of syndicated tax shelters. Contends that this decline is due to restrictive legislation, increased tax shelter opportunities elsewhere, especially real estate, and general farm depression. Maintains that all farms are tax shelters to some extent and questions whether any legislation that does not eliminate tax shelters provisions can eliminate farm tax shelters or restrict them to "legitimate" farmers. Describes tax rules making tax shelters possible (cash accounting, capital gains) and their effect on the farm economy.

President's tax proposals.—Argues that new limits on deduction for investment interest will have little effect on farm tax shelter activity, that capitalization of preproduction costs will restrict them in orchard, vineyard, and some livestock operations, and that capital gains for land and continued accelerated depreciation and some cash accounting will continue to make farming attractive as tax shelter. Points out that if other areas such as real estate are effectively restricted, farming may wind up more attractive as tax shelter operation than now.

Philip E. Harris, Assistant Professor of Agricultural Economics and Law, University of Wisconsin—Madison

Farm tax reform—general.—Believes the administration tax proposals will be beneficial to agriculture in long run by curtailing tax shelter investment and rationalizing economic incentives. Fears that in short run it may make current financial problems more difficult and so prefers to wait for better times for implementing tax reforms.

President's tax proposals.—Approves of most of proposals but has suggestions or reservations about some. Believes the proposed capital cost recovery system retains distortions because some assets have unrealistically short lives and because deductions will still be more valuable to higher-income taxpayers; also finds it unnecessarily complex. Believes change to accrual accounting requirement cause short-term bulge in taxable income that needs transition rules to overcome. Believes the 2-year rule for capitalizing expenses can be avoided by most livestock farmers and implies very complex recordkeeping; suggests a transitional rule for farmers switching to inventory accounting as a way out. Suggests exempting forced farm sales from alternative minimum tax.

Bryce P. Neidig, President, Nebraska Farm Bureau Federation

Favors tax reform if it does not increase taxes on agriculture. Does not object to modifying ACRS; would prefer retaining an investment tax credit limited to bona fide ranchers and farmers and expanded to include soil and water conservation expenses. Wishes to retain cash accounting for farmers and questions wisdom of eliminating bad debt reserve deductions for financial institutions.

Opposes any increase in social security taxes. Does not object personally to changes in capital gains but thinks livestock farmers may. Proposes allowing self-employed to deduct health insurance rather than tax employees.

James L. Powell, Chairman, Tax and Finance Committee, National Cattlemen's Association

Supports tax reform that broadens base, reduces rates, and is fair to all groups. Of President's proposals, supports repeal of investment tax credit, CCRS, and curbing tax shelters. Wants to retain income averaging. Lists as "unacceptable" capitalization of preproduction costs, denial of capital gains treatment to livestock, repeal of soil and water conservation deductions, and limitations on cash accounting. Has organized tax study group of agricultural organizations and wants to help draft fair tax reform bill.

James L. Lockett, Member, Board of Directors, American Farm Bureau Federation, and President, Oklahoma Farm Bureau

Supports tax reform in general but will have no official position on any plan until Tax Study Committee reports in August. Wants any plan to limit rather than repeal investment tax credit, retain capital gains for livestock and forestry products, place no restrictions on cash accounting, and repeal alternative minimum tax.

Tax shelters.—Supports limiting credits and losses from one business to income from that business as means of curbing tax shelters. Is unsure whether most tax shelter provisions have been good or bad for farming and urges Agriculture and Treasury to study question. Believes lower tax rates are best solution.

Other issues.—Urges balancing Federal budget through spending cuts rather than tax increases. Stresses importance of transitional rules in any tax reform. Proposes that self-employed be allowed deduction for health insurance premiums. Opposes increases in social security taxes.

Bishop Maurice J. Dingman, National Catholic Rural Life Conference

Believes taxation should promote social justice and that many provisions affecting farmers do not. Supports reforms to benefit family farms and not tax shelters, specifically; repeal cash accounting and expensing of preproduction period expenses, limit deduction of interest as farm business expense if taxpayer is not active farmer, repeal accelerated depreciation, limit investment tax credit to \$2,000 annually, allow 50 percent capital gains exclusion only for limited amounts from extraordinary sales for all farm corporations as partnerships, repeal special use valuation and increases in unified credit in estate tax, and provide incentive for transfer of farmland to beginning farmers.

Don Reeves, Farmer and Farm Policy Consultant, Interfaith Action for Economic Justice

Believes current tax law promotes overinvestment by non-farmers, fewer and larger farms, and deterioration of rural communities. Summarizes President's tax proposals relating to agriculture

and urges they be improved by returning to the treatment in Treasury I.

Jay Sherman, Washington Representative, Center for Rural Affairs

Presents analyses of President's tax proposals for effect on family farms, concluding that proposals are improvements but will not do as much as Treasury I proposals to reduce tax shelter farming.

Les Cashmere, President, Mount Arbor Nurseries, American Association of Nurserymen

Inventory accounting for crops.—Explains the difficulties of inventorying growing nursery stock and strongly opposes provisions in President's proposals that could require nursery industry to use inventories for tax accounting.

R. Richards Rolapp, President, American Horse Council

Livestock breeding.—Maintains that four of the President's tax proposals will have devastating effect on horse breeding industry and should be eliminated: capitalization of preproduction period expenses, elimination of capital gains treatment for livestock, requiring accrual accounting for large businesses, and limiting business deductions for meals and sporting events tickets.

June 25—Impact of Tax Reform on Small Business

Hon. Jim Sasser, U.S. Senator (Tennessee)

General comments.—Argues that the small business sector is important to the U.S. economy and to the State of Tennessee and that its support is essential to the enactment of any tax reform proposal. Says small firms are concerned that the tax system be made simpler and that it promote economic growth.

Corporate tax rates.—Feels administration's proposal is an improvement over Treasury's proposal, but can be improved further so as to move closer to the two goals. Concerned that small corporations earnings below \$50,000 would not receive a tax cut compared with large corporations. Suggests further reducing tax rates to 12 percent of first \$25,000 of income (from 15 percent under present law and administration's proposal) and 15 percent of income between \$25,000 and \$50,000 (from 18 percent presently and under the administration's proposal).

Investment incentives.—Describes small business's concern that proposed repeal of the investment tax credit and revision of the depreciation system would remove a key source of equity financing. Proposes gradual increase in the amount of investments which may be expensed to \$12,500. Recommends that small businesses with annual receipts of \$2 million or less be permitted to use cash method of accounting. Supports, generally, the administration's proposal on capital gains. Recommends reducing the burden which IRS regulations impose on small firms.

Hon. Parren J. Mitchell, Member of Congress (Maryland), Chairman, House Committee on Small Business

Effect of proposal on small business.—Argues that small businesses have been hurt by the high real rates of interest in recent years. Concludes that most of the administration's plan is either indifferent or disproportionately burdensome to small businesses. Claims that the plan does not simplify tax computations for small firms; maintains that the plan is unfair to small business because it would eliminate the marriage penalty, the deduction for State and local taxes, and the exemption of employer-provided health insurance. Asserts that maintaining the graduated corporate rate structure will be beneficial to small businesses. States that while repeal of the investment tax credit will not appreciably affect small business, the limitation of the deductibility of business meals will.

Other concerns and recommendations.—Fears that the administration's plan may lose revenues which would increase budget deficits and interest rates and further crowd small firms out of the credit markets. Proposes a tax deduction for investment in a small business as a way of addressing the capital formation needs of small business and that provisions to recapture previous tax bene-

fits should also apply to special tax preferences benefiting selected industries such as oil and gas.

John Motley, Director of Federal Legislation, National Federation of Independent Business

General comments.—Supports, generally, the administration's tax reform proposal. Claims that the present tax system impedes economic growth and that a more neutral tax system, slightly tilted toward the growth sectors such as small businesses, would generate economic growth and new jobs. Argues that simplicity of the tax structure should be a paramount goal of tax reform; tax compliance costs are tantamount to a hidden tax on small businesses with frequent changes in tax laws placing small businesses at a disadvantage. Recommends that adequate transition time be permitted from present law to administration's proposal so that small businesses have time to understand the new rules.

Tax rates.—Supports reductions in personal income tax rates which would assist sole-proprietorships and partnerships. Supports graduated corporate tax rates, but argues that reducing the top corporate tax rate from 46 to 33 percent is unfair to small corporations.

Depreciation.—Argues that small firms are concerned less with the amount which is depreciated than they are about the simplicity of the method. Expresses some concern that the provision to index the depreciation system will complicate tax computations for small firms. Because of these, he argues for an increase in the amount of capital investment which could be expensed from \$5,000 to \$50,000.

Special provisions for small business.—Supports the reduction in the tax rates on capital gains, but recommends a proposal to target capital formation incentives directly for small business: exempting small business owners from the tax upon the sale of their business, if the proceeds are reinvested in another small firm. Expresses concern for provisions to limit deductibility of interest. Also recommends that deductibility of 10 percent of dividends be increased for small firms. Supports indexing of inventories but recommends another option: cash-accounting for all small businesses. Opposes the proposed limits on the use of cash-accounting; claims this would hurt the services industry. Suggests a reduction in the frequency with which small businesses must deposit payroll taxes and in the burden of IRS regulations on small firms.

Herbert Liebenson, President, National Small Business Association

General comments.—Notes that the administration's plan may lose revenue. Recommends continuation of graduated corporate tax rates. Observes that sole proprietorships and partnerships will benefit by the reduction in personal income tax rates. Suggests that the limitations on businesses' use of cash accounting may be detrimental to small business. Concludes that the administration's proposal is an important step toward tax fairness for small business.

Specific provisions.—Praises the provision to index investments for purposes of depreciation deductions, as well as the indexing of inventories for inflation. Suggests that the provision to recapture previous excess depreciation could harm capital intensive small firms. Argues that reducing the capital gains tax rate for individ-

uals will spur new venture capital investments, especially for start-up firms. Pleased with cancellation of the proposal in Treasury I to limit interest deductions to the real interest paid, because many small firms are highly leveraged. Favors preserving the cafeteria plans as well as the 401(k) plans. Is open-minded on the proposal to permit corporations to deduct 10 percent of dividend distributions. Does not know what the effects of the minimum tax proposals would be on small business. Notes that limiting the deductibility of entertainment expenses could increase small business tax liabilities in 1986.

Walter E. Galanty, Jr., Chairman, Small Business Legislative Council

General comments.—Expresses small businesses' desire for tax simplicity and emphasizes the importance of capital formation and retention. Is pleased that the administration's proposal retains graduated tax rates, but urges a greater degree of graduation. Says lowering the top corporate rate from 46 percent to 33 percent would have both positive and negative effects. Declares support, in general, for the proposal.

Tax rates.—Supports the lowering of the capital gains tax rate to 17.5 percent; argues that this is very important in motivating outside investment in new and growing businesses. Argues that retention of the corporate rate on capital gains at 28 percent—in the context of a lower corporate income tax rate of 33 percent, and lower capital gains for individuals—would narrow the differential in tax rates which would otherwise provide a substantial amount of capital to organized venture capital companies. Recommends that the relative differentials in these tax rates be maintained at present levels.

Depreciation.—Believes that depreciation based on ACRS has disproportionately benefited large capital-intensive firms, but that repeal of the investment tax credit and revision of depreciation system would also harm capital-intensive small business sectors such as machine tooling. Proposes retention of present scheduled increases in expensing for small business and equal treatment for used equipment.

Cash accounting.—Argues that the limit on businesses' use of cash accounting could prove to be detrimental to small firms.

Brad Roller, President, Swiger Coil Systems, Inc., President, Small Business United

General comments.—In general, supports tax reform, but is concerned about detrimental effects of adapting to continual changes in the tax law. Recognizes the importance of preserving the graduated corporate tax rates and preferential tax treatment of capital gains.

Provisions concerning small business.—Claims the following changes will have a detrimental effect on small businessmen: (1) repeal of the investment tax credit; (2) deceleration of the rate of depreciation deductions; (3) elimination of tax exemption for industrial development bonds; (4) restricting the deductions for business meals and entertainment expenses; (5) the elimination of the bad debt reserve; (6) restricting the use of cash-accounting; and (7) the

inclusion into income of employer-paid insurance. Suggests the Tax Code allow the rollover of capital gains on the sale of a small business and the creation of small business participating debentures (SBPD) which would receive preferential tax treatment.

John K. Lamb, Chairman, Committee on Legislation, Business Advertising Council, Inc.

Tax reform and small business.—Emphasizes the importance of the small business sector to the U.S. economy. Favors reduction of tax rates and retention of graduated rate schedule. Expresses concern about the proposed repeal of the bad debt reserve deduction. Argues for retention of the investment tax credit up to \$10,000 of investment. Suggests an increase in the expensing limitation to \$20,000 to countervail the repeal of the investment tax credit and the revision of accelerated depreciation.

Bruce N. Hahn, Manager, Government Affairs and Public Relations, National Tooling and Machining Associations, Member, Executive Committee, Metalworking Fair Trade Coalition

General comments.—Endorses some elements of the administration's plan such as the rate reductions, but expresses concern about many other provisions.

Capital investment.—Is particularly concerned with proposed repeal of investment tax credit and the change from accelerated cost recovery system to the capital cost recovery system. Claims these provisions would increase tax rates significantly, further damage the competitiveness of small manufacturing companies, and drive small businesses out of business. Recommends that either capital investments be expensed, or that a new tax—a manufacturers tax—be imposed which would be credited against other taxes, as is embodied in the Business Transfer Tax Act of 1985.

James A. Gray, President, National Machine Tool Builders' Association

Investment in the machine tool industry.—Argues that continued investment in new plant and equipment is essential if the machine tool industry, which has not fully recovered from recent recession, is going to compete in world markets. Claims that the proposed elimination of the investment tax credit, the change in the system of depreciation, and the provision to recapture windfall gains from previous depreciation deductions would have a devastating impact on capital investment in the machine tool industry. Says these adverse impacts would not be offset by the reductions in tax rates. Argues that the administration's proposal has mistakenly included machine tool equipment as class 4 equipment rather than placing them in class 2—the same category as computing and accounting equipment. Believes this would reduce cash-flow necessary for investment and damage the competitiveness of the industry. Maintains that the administration's proposal constitutes an ill-considered change in the direction of its so far successful tax policy to promote investment, punishing companies that decided to undertake the risks in response to the tax incentive. Also argues that investment tax incentives have helped to reduce unemployment rates. Adds that because the machine tool industry is critical to national secu-

riety, the administration's proposal would "undermine U.S. defense preparedness." Supports the provision to extend the tax credit for research and development.

Earl N. Streacker, National Director, National Farm and Power Equipment Dealers Association

General comments.—Supports efforts to simplify the tax system. Indicates that the Association does not have the resources to determine precisely the impact of the administration's tax plan on its members.

Treatment of inventories.—Expressed support for the proposal to index inventories and recommends that the enabling legislation be made as simple as possible. Recommends depreciation of obsolete inventories (as embodied in H.R. 2254), returning to the inventory accounting practice prior to the 1979 Supreme Court decision in the *Thor Power* case which prohibited businesses from deducting a portion of inventories to account for obsolete and excess supplies and the revocation of the IRS ruling that requires all prior deductions in excess of the proper amount to be treated as income.

James L. Moody, Chairman and Chief Executive Officer, Hannaford Bros., Inc., Chairman of the Board, Food Marketing Institute

General comments.—Strongly supports tax reform. Prefers Treasury's original plan over the recent administration plan. Argues that the myriad of special tax preferences (deducting, credits, etc.) means that some industries, such as the food marketing industries, end up paying a very high tax rate.

Strongly supports: (1) reductions in personal and corporate income tax rates as well as the retention of the graduated rate schedules; (2) deductions for dividends paid (Treasury I is preferred over administration's plan); and (3) indexing of inventories based on FIFO method, which is in the administrations plan.

Michael W. Wright, Chairman, President, and Chief Executive Officer, Super Value Stores, Inc., Chairman, National American Wholesale Grocers Association

In general.—Supports tax reform which is guided by the principles of fairness and neutrality. Maintains that current tax system favors capital intensive industries at the expense of labor intensive industries. Also notes that excessive tax legislation in recent years has made businesses' long-term planning difficult.

Specific corporate tax revisions.—Strongly supports corporate rate reductions and the indexing of inventories under the FIFO system. Also supports, in principle, the deduction for dividends paid by a corporation, but contends that a 10-percent deduction is too modest.

Roger Dierberg, Executive Vice President, Dierberg's Food Markets, Chairman of the Board, National Grocers Association

In general.—Expresses support for tax reform in general and for the administration's tax reform proposal. Opposes Treasury's original proposal.

Corporate tax rate.—Favors the lowering of the top corporate rate from 46 percent to 33 percent, but is disappointed that the

lowest rates were not also reduced, especially for businesses that will lose many deductions and credits.

Other provisions.—Presents evidence of the stimulative impact of the ACRS depreciation system instituted in 1981. Favors the administration's proposed depreciation system over the Treasury proposal. Supports the 10-percent dividend deduction as well as the indexing of inventories under the FIFO valuation method.

Kurt M. Swenson, Trustee, Barre Granite Association, President, National Building Granite Quarries Association

Percentage depletion allowance.—Argues that the proposed repeal of the percentage depletion allowance would cripple the small businesses which constitute his industry. Claims that their taxes would increase by about 67 percent, but that foreign competition would prevent them from increasing prices. Maintains that many businesses would be forced to close, eliminating hundreds of jobs in the process. Contends that many communities across the country that depend on the industry would be devastated. Maintains that it is unfair to retain the allowance for oil and gas stripper wells; that the arguments for maintaining the percentage depletion allowance for oil/gas also apply to granite.

Donald M. Shaw, Member, Board of Directors, Multi-Housing Laundry Association

In general.—Supports tax reform in general, as well as the administration's proposal.

Effect on industry.—Concerned with the proposed repeal of investment tax credit and the possibly adverse effects that the proposal would have on the housing industry. Points out that the proposed repeal of the ITC would make it more difficult to purchase laundry equipment so that their small businesses couldn't expand and create jobs. Argues the administration's proposal would aggravate the existing shortage of rental housing in the United States. The adverse effects on housing would, according to Mr. Shaw, inevitably affect his members.

William M. Quinn, President, General Pipe & Supply Co., Chairman, American Supply Association

In general.—Argues that the present tax system is unfair, inefficient, and complex. Supports tax reform.

Merits of administration's plan.—Considers the administration's proposal beneficial for small businesses, especially the reduction in tax rates, retention of the graduated corporate tax rate structure, and the partial relief of the double taxation of dividends. Says proposed indexing of inventories would be particularly beneficial for wholesale suppliers of plumbing-heating-cooling-piping equipment. Claims that provision would help to lower this industry's very high effective tax rate.

Shortcomings of administration plan.—Maintains that certain parts of the administration's proposal would adversely affect his industry. These are: the CCRS system of depreciation, the repeal of the investment tax credit, and taxation of fringe benefits. Is especially concerned with provisions of the proposal which would adversely affect the housing industry, particularly the lengthening of

depreciable lives of structures from 18 to 28 years. Also opposes: (1) changes in the completed-contract method of accounting for construction firms; (2) repeal of the exemption for interest on IDB's; (3) repeal of the rehabilitation tax credit; (4) repeal of the deduction for State and local taxes; (5) limits on deductibility of personal interest; and (6) changes in the way partnership real estate projects would be taxed.

June 26—Impact of Tax Reform on Families

Hon. Charles E. Bennett, Member of Congress (Florida)

Deduction for elderly or handicapped persons.—Has introduced H.R. 266 and H.R. 267 to provide deductions to the heads of households who provide more than one-half of the support of elderly or handicapped persons. Bill provides financial assistance to families taking care of elderly and handicapped individuals in the home. States taxpayers should be encouraged through the Tax Code to provide home care for elderly and handicapped persons.

Hon. Dan Coats, Member of Congress (Indiana)

Increased personal exemption.—Believes personal exemption should be increased to \$2,000 under the reform legislation. States that average American understands the logic and justice of the exemption, that in the past the exemption has reduced a family of four's taxable income by as much as 72 percent but that this has been reduced to 16 percent in 1984. Says that taxpayers without dependents have not been affected as much. Challenges those who criticize the \$2,000 exemption as unnecessarily expensive to find a provision that is as important and as basic as the personal exemption. Does not believe that the exemption should be restricted to an increase in the dependent exemption only, that it be increased only for those in the lowest income bracket, or that it should be phased out at higher income levels. Favors a Kemp-Kasten type proposal because the personal exemption is worth about the same to every taxpayer. Believes personal exemption helps to achieve fairness by adjusting tax liability for family size and by exempting some persons from tax. Believes that an amount for personal exemption close to what low income families spend on their members is fair.

Hon. Patricia Schroeder, Member of Congress (Colorado), on behalf of the Congressional Caucus for Women's Issues

Tax reform for families.—Agrees with President's characterization of present Tax Code. States not all provisions of the code are unfair and unjust but that the code has earned its reputation because some of its provisions are unfair and unjust. States tax threshold is important to low-income families and that present threshold is too low and has effect of pushing people into poverty. States to achieve goal of raising tax threshold the earned income tax credit must be increased. Favors the Rangel proposal of \$800 maximum credit which is phased out between \$11,000 and \$16,000 of earnings. States that the zero bracket amount for single heads of households should be increased to the amount allowed married couples. Supports raising the proposed personal exemption to \$2,000 as a part of comprehensive tax reform. Believes tax threshold for

single taxpayers should be increased. Favors President's proposed expanded tax credit for the elderly, blind, and disabled.

Hon. Olympia Snowe, Member of Congress (Maine), on behalf of the Congressional Caucus for Women's Issues

Impact of tax reform proposals on the family.—Welcomes tax reform. Says President's proposals overall give positive treatment to low-income families. But urges colleagues to reject the substitution of a deduction for the dependent care credit because it would reverse the policy of targeting the credit to low- and moderate-income taxpayers. Urges restructuring of current credit to make it refundable and indexed to the cost of living. Urges rejection of repeal of the deduction for two-earner families. Supports raising the IRA contribution amount to \$2,000 for nonworking spouses.

Hon. Bill Boner, Member of Congress (Tennessee)

In support of code section 190 providing a deduction for removal of architectural barriers to disabled and elderly.—Shares view the Tax Code should be fairer and less complex but believes code should be used to encourage certain activities such as section 190 deduction. States without such deduction businesses are reluctant to incur the expenses necessary to make their buildings accessible. States section 190 provides a cost-effective federal-private partnership to achieve the goal of accessibility. Encourages Congress to incorporate it into tax reform or at the very least to consider an extension of the current deduction as provided in H.R. 1458.

R. Jack Powell, Executive Director, Paralyzed Veterans of America

In support of code section 190 providing a deduction for removal of architectural barriers.—Opposes the President's proposal to terminate section 190 when it expires. Seeks support of Congress to extend section 190 as a creative and cost-effective way for business, especially small business, and government to work toward voluntary removal of architectural barriers. Supports a 6-year extension provided by H.R. 1458.

States revenue loss is minimal when compared to the revenues removing barriers will generate.

Roberta Van Beek, Assistant Director of Governmental Affairs, National Easter Seal Society

Deduction for expenses incurred in the elimination of architectural barriers.—Supports H.R. 1458. States that tax considerations are often important factors in making business decisions and the deduction is an incentive, particularly helpful to small business, to make facilities accessible to all. States government has an important role to play in making business and transportation facilities accessible. States that passage of H.R. 1458 is in accord with congressional commitment to this goal.

Cyril F. Brickfield, Executive Director, American Association of Retired Persons

Tax reform and the elderly.—States objective of tax reform and simplification is laudable, as is attempt to alleviate tax burden of low-income elderly. Favors a system which is based on the ability

to pay. Favors base broadening, expanded tax credit for the elderly, and increased zero bracket amount. States elimination of extra exemptions makes tax threshold for the elderly the same as current law. States loss of State and local tax deduction will impact negatively on elderly middle-income homeowners and may ultimately result in lost services for the needy. Oppose taxation of first \$300 of employer-provided health insurance. Recommends that tax rate for upper income taxpayers be restructured to increase revenue and maintain progressivity.

Revenue effect.—States budget deficit is the Nation's greatest economic danger and that, therefore, tax reform must not be a revenue loser. If tax reform forecloses revenue options, the ultimate loser may be the low-income taxpayer. States revenue must be raised somewhere. Says corporate tax should be restored by eliminating or curtailing major corporate tax preferences. Believes corrections should be made in depreciation and oil and gas proposals. Favors strengthened minimum tax. Believes increased tax break for upper income taxpayers and continuing corporate breaks are achieved at the expense of the middle class.

Susan Rees, Executive Director, Coalition on Block Grants and Human Needs

Tax reform for the low-income family.—States that individuals and families at or near the poverty line should not pay taxes. Commends raising the zero bracket amount and making that for heads of households nearly as much as for married couples. Notes that proposed increase in personal exemption does contribute to tax relief but it benefits higher income taxpayers more. Favors increased ZBA or conversion to a credit. Pleased about President's proposal to increase and index the earned income credit but favors the Rangel proposal for greater increases in the credit. Believes tax reform should increase, not decrease, progressivity and asks that a higher fourth rate be considered. States changing dependent care credit to a deduction is regressive. States coalition position that if any tax preferences which benefit low-income individuals are eliminated, they should be replaced by direct spending programs. Says the two-earner deduction should be retained because it helps the poor.

Gerald P. Regier, President, Family Research Council of America, Inc.

Implications for the family.—Believes family should be placed at the center of the tax reform debate. Favors raising the personal exemption and dependent exemption to \$2,000. Favors proposed earned income credit proposal. Believes President's tax proposal takes significant steps toward providing economic equality through increased IRA contribution of nonworking spouse and repeal of marital deduction. Suggests that elimination of child care credit be considered in favor of greater personal and dependent exemption. Opposes child care tax deduction as a continued subsidy to the wealthy.

Helen M. Coyne, President, Mothers At Home, Inc.

Implications for families.—Believes tax policy should be career neutral, not favoring two career or single career families. Says present system penalizes family with one spouse at home. Favors increased spousal IRA contribution and increased personal exemption provided in President's proposal.

Trisha Katson, Legislative Director, Liberty Lobby

In general.—Believes family should be cornerstone of tax reform. Opposes President's proposal because it does not address real issues that need to be addressed. Opposes return-free tax imposition. Favors adoption of Liberty Amendment and a return to Constitutional taxation.

Impact on Business

Hon. Bill Boner, Member of Congress (Tennessee), on behalf of the Congressional Travel and Tourism Caucus

Limiting business meal deductions.—Opposes arbitrary cap on food, which singles out an industry. Believes business meal is legitimate marketing tool. Believes limiting will result in loss of jobs.

Hon. Bob Badham, Member of Congress (California), on behalf of the Congressional Travel and Tourism Caucus

Limiting deductibility of business meals and entertainment expenses.—Believes \$25 cap is too low. Says business meal is integral to many small firms' marketing plans. States elimination of entertainment deduction would have serious impact on lodging and food service industries.

Hon. Bill Nelson, Member of Congress (Florida), on behalf of the Congressional Travel and Tourism Caucus

Limiting deductibility of business meals and entertainment expenses.—Believes these proposals are bad tax policy and counterproductive to the economy. Study predicts if proposal is adopted it would result in significant sales, job, and tax revenue losses.

John Albertine, President, American Business Conference

Corporate tax.—Strongly favors tax reform. Believes all firms earning the same income should have the same effective tax rate. Believes current tax code thwarts efficient operation of free market. Urges doing away with double taxation on equity. Favors the differential treatment for capital gains and the 10-percent deduction for dividends paid, and reduction in personal and corporate rates.

Richard W. Rahn, Vice President and Chief Economist, Chamber of Commerce of the United States

In general.—Applauds tax reform proposals. Believes any reform should be revenue neutral. Believes capital formation, technological advancement, international competitiveness, and job creation are standards to evaluate tax reform. Urges reform that is growth-inducing.

Individual and corporate tax reform—specific recommendations.—Opposes proposed capital cost recovery system. Recommends retaining ACRS and ITC. Opposes recapture of depreciation. Favors reduction in individual and corporate rates. Supports proposal to retain indexing to maintain value of zero bracket amount and personal exemption. Favors increased spousal contribution to IRA's. Favors 10-percent deduction for dividends paid. Strongly endorses proposal's capital gains treatment. Applauds proposal to extend research and development credit for 3 years. Recommends retention of expensing of research expenditures. Opposes per country limitation on foreign tax credit. Questions source of income rule changes for export sales. Opposes allocation of interest expense rule changes. Applauds retention of graduated corporate taxes for small business. Questions proposal to eliminate IDB and limit general obligation bonds. Encourages efforts to privatize governmental programs through use of employee benefits.

Paul R. Huard, Vice President, Tax and Fiscal Policy, National Association of Manufacturers

In general.—Neither supports nor opposes President's proposal but terms it a valuable first step toward tax reform. Applauds changes from Treasury I of restoring preferential tax rate for capital gains, graduated tax rate for small business, and a form of accelerated depreciation for capital investment. Also applauds retention of top corporate tax rate of 33 percent and principle of deduction for dividends paid. But strongly opposes recapture tax and repeal of investment tax credit. Fears substantial increase in taxes on capital will lead to recession, slow productivity growth, and undermine our international competitiveness.

Specific recommendations.—Supports substantial reduction of individual tax rates (perhaps slightly higher than President's), reduction of corporate tax rates and retention of graduated rate structure, 10 percent dividends paid deduction (states goal should be 100 percent deduction), retention of favorable capital gains treatment, capital cost recovery system with modification such as retention of ITC, and 3-year extension of R&D credit. Opposes repeal of investment tax credit, imposition of a recapture tax on ACRS windfall, the per country limitation on the foreign tax credit, changes in the present rules for determining the source of sales income, proposed rules altering the allocation of interest expense, the repeal of the possessions tax credit, the increased complexity associated with compliance with proposed fringe benefit changes, changes in 401(k) deferrals and taxation of employer provided health insurance, and changes in tax accounting rules.

Macroeconomic effects.—Says plan would raise the cost of capital and thus introduce moderate deindustrialization in U.S. economy which is a shift from capital intensive manufacturing sector to labor intensive sectors and a decline in the capital-labor ratio (meaning lower productivity). Says the plan would also exacerbate the serious trade deficit and result in lost jobs by accelerating the tendency to locate new production facilities outside the United States. States it would compound the bias in favor of consumption and against savings.

William Y. Giles, President, Philadelphia Phillies, on behalf of Major League Baseball

Elimination of deduction for tickets to sporting events.—Opposes elimination of deduction for tickets to sporting events and urges its rejection. Says many businesses purchase tickets to sporting events because of strong commitment of community support for their teams. States that business purchase of baseball tickets is not excessive spending; i.e., average ticket price is \$6.67. Asserts that the average revenue loss could be as much as \$6 million per team and that teams would be forced to raise ticket prices. Says it would impact negatively on municipalities because revenues from stadiums and arenas would go down as attendance decreased. States present law and IRS regulations provide adequate protection against expenditures which are not properly deductible.

Robert E. Mulcahy III, Commissioner and Chief Executive Officer, New Jersey Sports and Exposition Authority

Elimination of business deduction for entertainment expenses.—Opposes elimination of deduction and states that it unfairly discriminates against the sporting and entertainment industry. Says determinations of validity of business expenses should continue to be a matter of interpretation for the IRS. States entertainment tickets are well established marketing tool and that the sales of executive boxes or corporate suites is an essential financing tool for arenas and stadiums. Says elimination of the deduction will make ticket prices rise and have a deleterious effect on neighboring communities due to lost revenues and jobs. Comments that there are problems with the proposed blanket prohibition of advance refunding.

Edward M. Snider, Owner, Philadelphia Flyers and Spectacor, on behalf of National Hockey League

Elimination of deduction for tickets to sporting events.—Opposes elimination of deduction for tickets to sporting events. Says minimal revenue will be raised and there will be a negative impact on ticket sales, which will result in a loss of revenue to each franchise and its dependent concessionaires. Estimates it will cost Philadelphia \$343 million. Says the taxpayer's debt burden will be increased for municipally owned facilities. States it will imperil the financing of executive boxes, which contributes to the vitality of cities. Asserts that amateur and minor league hockey will be cut back. States this is a legitimate deduction and notes other tax reform proposals do not contain such a provision.

Gerald Schoenfeld, Chairman, The Shubert Organization, on behalf of The League of American Theatres and Producers

Elimination of the tax deduction for theatre tickets.—Opposes elimination of the tax deduction for theatre tickets purchased for business purposes. States present restrictions on ordinary and necessary business expenses prevent abuse in this area. States that there would be no revenue gain from this proposal and that the elimination of the deduction would result in loss of jobs in the industry and its dependent businesses. States that elimination of the

deduction would be counterproductive in human terms as well as for the theatres.

Joseph N. Noll, President, National Club Association

Elimination of deduction for club dues and business meals.—Opposes the elimination of the deduction for club dues and other business entertainment expenses and the restrictions on the deductibility of business meals. Believes proposals are unwarranted and unfair. Says the proposals would inflict great economic losses on club employees and clubs, which would negate the projected tax revenue gains. States that current documentation and substantiation requirements for tax deductions are fair, reasonable and appropriate. Says these proposals are unfair to business persons who use these marketing techniques. Asserts they would establish poor tax policy by substituting the judgment of government for that of the individual taxpayer and move the system closer to taxing gross income. Concludes that deduction should not be disallowed just because the taxpayer may glean some personal pleasure from it.

Ted Balestreri, Chairman and President, National Restaurant Association

Limiting the deduction for business meals.—Opposes limiting the deduction for business marketing meals. Says proposal is in opposition to the stated policy that tax reform be economically neutral, because capping the deduction will inject tax considerations into the business decision process. States that in the first 3 years it will cause employment to be reduced by 580,000 person years and will result in lost revenues of \$14.6 billion at the Federal level and in an even greater loss at the State and local levels. Says it would be a compliance nightmare and increase the opportunity for fraud. Concludes it will decrease the industry's sales volume.

Neil Port, Chairman, Governmental Affairs Committee, International Food Service Distributors Association

Limiting the deduction for business meals.—Opposes the amendment to limit the deductibility of business marketing meals. States that IRS can curb abuses, which are not widespread, under existing law and regulations. Says many businesses produce goods and services which cannot be effectively marketed through the use of mass media and require personal contact. Asserts that cap will result in significant sales, job, and revenue loss.

Alphonse W. Salomone, Senior Vice President, Eastern Region, American Hotel and Motel Association

Elimination of deduction for entertainment expenses and limiting deduction for business meals.—Opposes elimination of deduction for entertainment expenses and limiting the deduction for business meals. Asserts proposals threaten lodging industry. Says many of the other proposals, such as the repeal of the investment tax credit, will impact profoundly on the industry. Notes it is mainly a mom and pop industry—large properties of over 100 rooms are only 12 percent of industry. States that the lodging industry is a major employer, and that two-thirds of lodging revenues come from business and convention use. States any tax proposal that limits or elimi-

nates legitimate business activities in lodging facilities will affect lodging use. Convinced that there now exists in the code and regulations sufficient safeguards to control any abuses. States current law contains proper balance of freedom for business and controls for government. States proposal will eliminate jobs producing a net loss of revenue to the Treasury.

June 27—Impact of Tax Reform on Business

Roger B. Smith, Chairman and Chief Executive Officer, General Motors Corp.

In general.—Supports comprehensive tax reform to make system fairer, simpler and more neutral. Believes tax reform should raise adequate revenue to fund Government activity, treat taxpayers fairly, promote economic efficiency, maintain international competitiveness, and make the code as simple as possible. Believes tax considerations should be removed from business decisions. States most significant accomplishment of President's proposal is rate reduction. Says broadening of tax base and elimination of credits helps to make system more fair, and that proposal provides greater neutrality in corporate financing decisions through use of 10 percent dividends paid deduction, a concept which he believes is an important contribution to tax system, and makes capital cost recovery more neutral. Says it also makes advances in simplifying tax system for individuals.

Opposes adoption of depreciation recapture proposal because it lacks elements of fairness. Opposes changes in international tax computation. Says current law is preferable.

John F. Akers, President and Chief Executive Officer, IBM Corp.

Corporate tax reform.—Applauds President's effort for genuine tax reform. States present system, which is a combination of excessively high marginal rates and a tax base riddled with exceptions, is defective as to fairness and leads to economic distortions. Favors reducing corporate tax rates and broadening the tax base. Favors 10 percent dividends paid deduction as a move away from double taxation. Supports extension of R&D credit. Concerned about proposal to recapture excess depreciation and, if retained, recommends that the recapture amount be paid over a 5-year rather than 3-year period. Believes the proposed transition from current law should include a 5-year phase-out of the investment tax credit. Concerned with shift of tax burden from individuals to corporations. States it is unfair to phase out current tax benefits on January 1, 1986, but not provide rate reduction until July 1, 1986, or dividends paid deduction until January 1, 1987. Says this may affect incentives for growth. Hopes Congress will improve upon President's complex 401(k) proposal.

Robert D. Haas, President and Chief Executive Officer, Levi Strauss & Co., on behalf of American Apparel Manufacturer's Association

Corporate tax reform.—Enthusiastically supports President's proposal. Believes proposals will improve industry's international competitiveness, will encourage job retention, and produce new jobs.

Favors rate reduction to 33 percent. Says this will improve ability to compete for market place internationally. Favors elimination of tax preferences which favor capital intensive industries. States investment should be guided by demands of market place not tax considerations. Applauds the 10 percent dividends paid deduction proposal.

John L. Huck, President and Chief Operating Officer and Chairman-Elect, Merck & Co., Inc.

Corporate tax reform.—Endorses the principles of President's tax proposal. States most important features are base broadening and rate reduction. Says lower rates will stimulate investment in plant and equipment as well as reduce incentives to base investment decisions on tax results. Heartily endorses the dividends paid deduction. Favors extension of R&D credit. Urges Treasury to make permanent the current moratorium on the rules relating to the allocation of research and development expenses against foreign source income. States this moratorium will stimulate growth and keep America competitive.

Opposes repeal of the possessions tax credit. States Federal deficit is a concern and must be considered with tax reform.

Jay Van Andel, Chairman, Amway Corp.

In general.—Supports President's proposal on individual taxation as an improvement over present system but notes that his ideal is a flat tax. Supports President's corporate tax proposals as an improvement over current law. States proposal encourages entrepreneurship. Favors revenue neutrality. Finds shift of tax burden from individual to corporation acceptable in light of whole package. States proposal encourages job creation, product development, and growth.

David M. Roderick, Chairman and Chief Executive Officer, United States Steel Corp.

In general.—Commends President for commitment to tax reform and objectives of fairness, growth, and simplicity. Applauds constructive changes made from Treasury I proposal.

Corporate taxes.—Believes any tax reform proposal should strengthen manufacturing base and improve international competitiveness. But says proposal is unfair and does not promote economic growth because it raises corporate taxes by 24 percent over 5 years mainly at the expense of the manufacturing sector. Believes proposal can be improved by retention of the investment tax credit and percentage depletion on hard minerals. States elimination of ITC increases cost of capital to steelmakers and, coupled with slower depreciation, will lead to less capital investment by steel industry's customers. Says this will decrease the demand for American steel. Believes the proposed alternative minimum tax for corporations should be revised because it has a negative impact on marginally profitable cyclical companies which results in them paying more in total taxes than a consistently profitable company. Says it effectively repeals unused investment tax credits which cannot be used to offset the minimum tax.

Opposes treatment of interest expense as tax preference item. Says it reflects proposal's bias against investment. States President's proposal does not simplify corporate tax compliance because many items such as dividends, fringe benefits, and inventory will be subject to additional complicated accounting requirements.

Charles W. Parry, Chairman and Chief Executive Officer, Aluminum Company of America

Corporate tax reform.—Believes most pressing concern is Federal deficit, not tax reform. Worries about a tax system which removes critical incentives for capital intensive industries. Troubled by a tax system which changes nearly every year, thus making investment planning nearly impossible. Opposes depreciation recapture proposal because it is retroactive and unfair, and will hurt nation's basic industries. Opposes repeal of investment tax credit. Recommends a more gradual reduction in tax rates along with a small shift in tax burden from individuals to corporations.

Forrest E. Hoglund, President and Chief Executive Officer, Texas Oil & Gas Corp.

Oil and gas proposals.—Believes proposal will have negative impact on drilling new wells initially due to increased tax burden in first 2 years under proposal. Says the loss of investment tax credit is not offset by the reduced corporate tax rates. But believes the proposal in the long run will produce positive results and consequently supports President's proposal.

Richard Briggs, Executive Vice President, Association of American Railroads

Corporate tax reform.—Supports broad goals of fairness, growth, and simplicity. But believes proposal places an unduly heavy burden on capital intensive industries. Feels it will cause a drastic decline in railroads' cash flow and profits which will result in higher freight and, hence, consumer prices.

Opposes shift of tax burden to capital intensive corporations. Opposes repeal of ACRS and ITC and adoption of CCRS. States lower tax rates will not offset these losses. Opposes proposal to recapture excess depreciation. Says it is punitive to capital intensive industries. Convinced it will reduce capital spending and increase unemployment. States the proposal has many uncertainties which may increase the trade deficit and result in lost jobs. Says even if lost manufacturing jobs are absorbed by service sector, wages will be less and transition will be painful.

Gerald K. Howard, Vice President and Tax Counsel, Sperry Corp., on behalf of the Computer and Business Equipment Manufacturers Association

In general.—Notes the computer industry pays higher taxes on average than other U.S. industries. Sees the President's tax reform proposals as a positive step toward creating a more equitable distribution of the tax burden.

Corporatate tax reform.—Supports proposals to reduce corporate tax rates. Favors the extension of the R&D tax credit but believes it would be much more effective if extended to cover a 6-year

period. Suggests that if the investment tax credit repeal proposal does go into effect; the tax reform package should include a depreciation system which will accurately classify high technology equipment and will benefit short-lived as well as long-lived equipment. States that the proposal's recapture tax on "windfall" benefits must be amended to recognize the short actual life of electronic equipment.

Opposes per country foreign tax credit limitation because it will be extremely hard to calculate and enforce due to the integrated nature of overseas business activities. Also believes proposals to eliminate foreign source income from the sale of most goods manufactured in the United States will increase taxation of exports and make little sense at a time of record trade deficits.

Sumner Feldberg, Chairman, National Retail Merchants Association

Corporate tax proposals.—Strongly supports fundamental restructuring of tax laws contained in the President's proposals. States the 33 percent maximum corporate tax rate and the retention of graduated tax rates for smaller corporations will do much to decrease the unfair tax burden carried by high-tax industries. Believes relief beyond the 10 percent dividend deduction should be considered to reduce the taxation of corporate income. Supports modification of the cost recovery system and elimination of investment tax credit because they will result in more equitable treatment of industries. Concerned with impact that tax reform will have on employer provided benefits and believes reform in this area requires further study.

Individual tax proposals.—States that individual income tax provisions such as the decrease in the number of marginal tax brackets, the general reduction in rates, and the increase in the personal and dependency exemptions will encourage equity and simplicity in the tax system.

Charles F. Zodrow, Chairman, Tax Policy Committee, American Trucking Association

Corporate tax reform.—Endorses President's proposals primarily because they include the reduction of the top corporate rate to 33 percent. Believes corporate rate cut, preservation of lesser rates for small firms and the 10 percent dividend deduction will promote fairness by lessening the tax burden carried by the trucking and other high-tax industries. Favors creation of six asset classes for depreciation purposes and indexing deductions for inflation. States these provisions will result in more evenhanded treatment of assets that wear out fast (such as trucks) and longer-lived property.

States that repeal of investment tax credit will harm trucking industry but believes reform will benefit economy as a whole provided the maximum 33 percent corporate rate goes into effect. Considers the provision for a "windfall" tax on past depreciation to be an unnecessary, retroactive increase. Opposes provisions that add complexity without adding to fairness or revenue. Among these are the plan for depreciation as a basis for calculating earnings and profits and the minimum tax, and the plan to change from a mid-year to a mid-month convention for depreciation. Believes proposal to include a portion of each month's health insurance premium in

income would be expensive and do little to control health insurance costs.

W. Scott Smith, Jr., Chairman, National Association of Wholesaler-Distributors

Corporate tax proposals.—Advocates the need for tax reform and supports the administration's efforts to achieve it. Says current system is grossly unfair. Believes the reduction of the maximum corporate tax rate combined with the preservation of graduated rates for smaller businesses will produce across-the-board benefits which cannot be achieved with tax preferences. Also endorses proposal to allow indexing of FIFO inventories. Like the graduated rate structure, this provision will benefit smaller members of many industries.

July 8, 1985—Impact of Tax Reform on Charitable Giving

Jean Mayer, President, Tufts University and Chairman, New England Board of Higher Education

Appreciated property and minimum tax.—Maintains the charitable deduction supports special interests which are not special in the perjorative sense. States they are the public's interests and are frequently paid for or subsidized by the central government in industrialized nations. Says econometric studies show higher education will suffer a 27-percent reduction in giving from Treasury I proposal. Contends the tax treatment of appreciated property is of the most concern, and inclusion of the appreciated portion of a gift in the list of preferences subject to the minimum tax will have serious effects.

Jack Moskowitz, Senior Vice President, Government Relations, United Way of America

Nonitemizers.—Advocates the retention of the nonitemizer deduction for charitable contributions. Says it is important to have charitable organizations supported by all income classes.

W. McNeil Lowry, Former Vice President, the Ford Foundation

Nonitemizers.—Believes the charitable deduction fosters pluralism in public policy for the arts. Says the proposal not to permit taxpayers who use the short form to deduct contributions will erode the support of lower and middle income citizens and, consequently, diminish their role in formulating a pluralistic public policy.

Joe B. Wyatt, Chancellor, Vanderbilt University, for American Council on Education

Believes the lowering of tax rates will hurt education, even though it may be desirable national policy. Suggests this damaging effect should not be compounded by giving specific changes such as not allowing deduction for the appreciation in market value of assets, restrictions on tax-exempt bonds, removal of the nonitemizer deduction, and the R&D tax credit.

Paul S. Egan, Deputy Director, National Legislative Commission, The American Legion

Nonitemizers.—Believes fairness requires equal tax treatment of itemizing and nonitemizing taxpayers, and that the nonitemizer deduction should be continued. Suggests nonitemizer deduction should be allowed to deduct expenses for automobile mileage. Also desires an increase in the mileage allowance.

William K. Van't Hof, American Heart Association

Nonitemizers.—Declares that removing tax incentives for charitable giving by nonitemizing taxpayers is unfair.

Employer contributions to health insurance premiums.—Also concerned with the proposal to tax the first \$10 (per month) of employer contributions for an individual's health insurance benefits and the first \$25 (per month) of employer contributions for family health insurance benefits.

Theodore C. Mars, M.D., Member, National Board of Directors, American Cancer Society

Nonitemizers.—States the deduction for nonitemizers should be retained. Says many cannot contribute without the deduction.

Alfred Munzer, M.D., Chairman, Government Relations, American Lung Association

Nonitemizers.—Emphasizes that the nonitemizer deduction is particularly important for the Association's many contributors who give small amounts because it encourages them to give more.

Brian O'Connell, President, Independent Sector

Independent Sector accepts the reductions in charitable giving which result from lower marginal tax rates, but not additional reductions from other provisions. Suggests the principle of treating nonitemizers and itemizers alike was recognized by Congress in 1981. Says tax proposal contradicts administration's call for volunteers to play a larger role in helping people as the Federal budget is reduced.

William Macomber, President, Metropolitan Museum of Art, New York City

Appreciated property.—Says the treatment of appreciated property will more than double the cost of a donation. Maintains the effect will be to move works of art to the auction galleries rather than museums, and that many will end up in Japanese or European collections.

Robert P. Mahoney, Professor of Biology, Skidmore College

Blood donation.—Declares that the Internal Revenue Service's decision not to allow tax deductions for voluntary blood donations is without foundation in that it relies on antiquated, irrelevant, and discredited decisions. Says allowing a deduction may enable the United States to end its dependence on imported units of red blood cells from Europe.

Tony Randall, Actor

Business entertainment expenses.—Declares the proposal to end the business deduction for the purchase of theater tickets and limitations on charitable contributions places thousands of jobs at stake. Urges committee to reevaluate effect of reform proposed on performing arts.

Des McAnuff, Artistic Director, La Jolla Playhouse

Business entertainment expenses.—Says the President's plan to eliminate deductions for business entertainment expenses will accelerate the decline of commercial and noncommercial performing arts.

Nonitemizers.—Suggests the repeal of nonitemizer deductions is likely to cause a loss of nearly \$6 billion to the nonprofit sector.

Bernadette Nolan, Secretary, Illinois Arts Council

Business entertainment expenses.—Says the proposal to eliminate the business deduction for ticket purchases could threaten the vitality of the performing arts. Maintains the proposal will adversely affect hundreds of thousands of jobs throughout the labor intensive theater industry. Indicates strict tests must currently be met before such deductions are allowed.

July 9—Impact of Tax Reform on Real Estate and Housing

Hon. Lindy Boggs, Member of Congress (Louisiana)

Tax incentives for rehabilitating buildings.—Supports retention of tax incentives for rehabilitating historic and other structures in any tax reform. Credits present tax incentives with renovation of New Orleans.

Hon. W. Wilson Goode, Mayor of Philadelphia

Historic building rehabilitation tax credits.—Illustrates importance of retaining tax credits for rehabilitating historic structures by examples from Philadelphia projects and projects of small Pennsylvania cities.

Hon. Terry Gabinski, Alderman, 32d Ward, Chicago, Illinois

Tax incentives for rehabilitating buildings.—Credits historic structures and other rehabilitation tax incentives with great and visible impact on his ward and with stimulating \$350 million in investments in historic structures in Chicago alone. Claims that suggestions of repeal have curtailed new projects.

Alan S. Boyd, Chairman of the Board of Trustees, National Trust for Historic Preservation

Historic buildings rehabilitation tax credits.—Urges retention of tax credits for historic structures, which he says has generated more than \$5 billion in private investment in historic buildings since 1981. Says market forces will not preserve buildings without tax breaks.

John L. Matthews, President, Silver Heels Development Co.

Tax incentives for rehabilitating buildings.—Credits rehabilitation tax credits with revitalizing Marietta, Ohio (oldest settlement in Northwest Territories), and urges their retention.

John Belle, Beyer, Blinder, Belle, Architects and Planners

Tax incentives for rehabilitating buildings.—Maintains tax incentives have been successful in preserving historic structures and revitalizing old commercial districts and should be retained.

James W. Rouse, Chairman of the Board, Enterprise Foundation

Tax incentives for low-income housing.—Explains role of tax incentives in attracting equity capital to low-income housing projects. Urges retention of present tax incentives, targeted to projects of nonprofit organizations.

Mitchell Sviridoff, President, Local Initiatives Support Corp.

Tax incentives for real estate.—Stresses importance of tax incentives as substitute for direct funding for public projects. Suggests retention of selected tax incentives for investments in projects sponsored and managed by nonprofit community development corporations.

David D. Roberts, President, National Association of Realtors

Real estate.—Supports President's tax proposals with modifications, but finds adverse impacts for country in most proposals affecting real estate.

J. McDonald Williams, National Realty Committee

Real estate.—Supports simplicity, lower rates, and level playing field, but objects to changes in capital gains treatment, limitations on interest deductibility, long depreciable lives for buildings, use of RCRS depreciation in the alternative minimum taxes, extra taxes on past accelerated depreciation, and extension of the at-risk rules to real estate.

Neil G. Bluhm, for American Real Estate Committee

Real estate.—Asserts President's proposal would seriously disrupt real estate investment. Objects to characterizing limited partnerships as tax shelters and penalizing them, to disallowing capital gains preferences for depreciable property, to repeal of ACRS depreciation, to extension of at-risk rules to real estate, and to extra taxes on previous depreciation.

John Koelemij, President, National Association of Home Builders

Real estate.—Supports tax reform but opposes all changes in President's proposal affecting real estate. Cites economic study showing adverse impacts on housing, construction, and property values.

Roger Greer, President, Texas Division of Johnstown American Co., and President, National Apartment Association

Rental housing.—Urges retention of tax preferences for rental housing as only practical means of securing necessary government subsidies for industry.

Carl A.S. Coan, Jr., Legislative Counsel, National Housing Conference

Rental housing.—Believes President's tax proposals will have adverse effect on supply of rental housing. Urges retention of tax incentives to subsidize rental housing.

Robert J. Spiller, President, Chairman and Chief Executive Officer, Boston Five Cents Savings Bank, and Mortgage Bankers Association of America

Real estate.—Supports overall thrust of tax reform proposals, but finds all of those affecting real estate unacceptable.

Barry Zigas, President, National Low-Income Housing Coalition

Low-income housing.—Would be happy to support completely neutral tax system and direct subsidies to provide housing for low-income persons. Does not believe direct subsidies are possible, however, so urges retention of tax incentives. Describes ways in which incentives could be better targeted to help poor and ways to increase taxes on higher incomes to offset losses.

J. Roderick Heller III, President, National Corporation for Housing Partnerships

Low-income rental housing.—Credits tax incentives with success of this Federal corporation at creating and maintaining housing projects. Asks that publicly-assisted housing be exempt from the at-risk rules and the limitations of limited partnership interest and that 15-year depreciable lives and tax-exempt bond financing be allowed low and moderate income housing. Requests new tax incentive of maintenance of federally-assisted housing projects.

R.J. Godin, Jr., President, National Leased Housing Association

Rental housing.—Urges retention of tax incentives for construction of new rental housing as best means of assuring that older units will be available to poor.

Joseph A. Shepard, President, Council for Rural Housing and Development

Low-income housing.—Calls tax incentives essential to low-income housing projects. Asks exemption for low-income housing from at-risk rules and capital gains changes and opposes other changes affecting real estate.

Terry L. Lerman, Co-chairman, Coalition for Low and Moderate Income Housing

Rental housing.—Suggests modifying or dropping all of the President's proposals affecting rental real estate.

Allen Cymrot, President and Chief Executive Officer, Kemper/Cymrot, Inc., and Chairman-elect, National Multi Housing Council

Rental housing.—Believes tax incentives are necessary to induce investment in rental housing and that President's proposals would increase rents and lower standards of living for many low- and moderate-income households.

Lee H. Henkel, Jr., Chairman of the Board, Sands Investment, and Senior Tax Partner, Troutman, Sanders, Lockerman & Ashmore, for American Land Development Association

Second homes.—Opposes proposal to limit deductibility of interest and believes recreational homes industry should be exempted from proposal to tax loan proceeds of pledged installment obligations. Believes these proposals would destroy industry.

Stephen D. Moses, Chairman of the Board, National Investment Development Corp.

Tax incentives for real estate.—Argues that tax savings are principal return on real estate investments. Urges no change in deduction for mortgage interest through partnerships and retaining exemption from at-risk rules. Offers alternatives for limiting nonrecourse investments.

Ronald S. Borod, Partner and Head of the Investment Banking Section, Borod & Huggins

Tax incentives for real estate rehabilitation.—Credits tax-exempt financing and rehabilitation tax credits with restoration of downtown Memphis, Tennessee. Argues that rehabilitation projects are worthy use of tax incentives.

Jack A. Belz, President and Chief Executive Officer, Belz Enterprises

Real estate.—Objects to paying for tax reform with tax increases on real estate industry. Opposes provisions affecting real estate.

James M. Miller, Partner, Miller-Vallentine Group, Past President, National Association of Industrial and Office Parks

Commercial real estate rentals.—Asserts that President's proposals would increase commercial rents by 15 percent. Opposes tax reform proposals affecting real estate.

Wallace R. Woodbury, Chairman, Tax Subcommittee of Government Affairs Committee, International Council of Shopping Centers

Shopping centers.—Supports tax reform but opposes changes affecting real estate.

Noel R. Leary, Executive Vice President, Building Owners & Managers Association International

Real estate.—Membership is divided over tax reform proposals. Would like to support President's proposals but is concerned about provision affecting real estate.

July 10—Impact of Tax Reform on Employee Benefits and Compensation

Sam Diannitto, Jr., President, National Conference on Public Employee Retirement Systems

Tax reform proposal—general comments.—Recommends that further responsibility be placed on the corporate side of the income tax ledger by reducing the top corporate rate by less than the proposed one-third cut from 46 to 33 percent; strengthening the corporate minimum tax; rejecting the 10-percent deduction for corporate dividends; and curbing tax privileges of the oil and gas industry.

Tax reform proposals relating to public employees.—Opposes elimination of deduction for State and local taxes because it would impair ability to fund public employee retirement programs. Opposes 20 percent excise tax penalty for distributions for retirement benefits received prior to age 59½ because many public employees such as law enforcement officers and firefighters normally retire at ages prior to 59½. Argues that if 401(k) plans are continued they should be available to all workers: employees of nonprofit organizations and governmental units should not be disallowed from participating.

Proposals relating to benefits in general.—Opposes elimination of tax exclusion for current benefits received as worker's compensation or disability retirement benefits received in lieu of worker's compensation because it is unfair to penalize individuals who have incurred disabling injuries in the course of performance of duty. Opposes taxation of employer paid health insurance benefits. Recommends that the proposal which would repeal income averaging be modified to allow averaging to apply to lump sum distributions derived from defined benefit or defined contribution retirement plans.

Karen W. Ferguson, Director, Pension Rights Center

Section 401(k) plans.—Favors Treasury I proposals that would have eliminated 401(k) plans. Views 401(k) plans as representing a dangerous retreat from private pension plans in favor of "do-it-yourself" retirement arrangements. Prefers an improvement in pension plans as sound retirement income policy. If salary reduction features are kept, suggests incorporating them into conventional pension plans rather than permitting a separate 401(k) arrangement.

Termination-reversions.—Supports the 9-month moratorium of termination-reversions recently proposed by Congressman Edward Roybal, chairman of the House Select Committee on Aging, to enable Congress to commission a study of this difficult and important issue. Views proposed 10 percent excise tax on assets recaptured by employers as ratifying a practice that could undermine

the private pension system, by sanctioning continuation of termination-reversions at a small price.

Coverage tests.—Points out that President's coverage proposal continues to permit exclusions by job category. Argues that employers maintaining pension plans should be required to cover all employees, except in the case of diversified companies under common control and in the relatively rare situations of recent mergers and acquisitions, or where the employees are covered by comparable plans.

David Hurd, Executive Vice President, Bankers Life Co., and Chairman, Association of Private Pension and Welfare Plans

Employer sponsored pension and welfare benefit programs—in general.—Prefers to have issues of employee benefit changes considered separately, in the House Ways and Means subcommittee hearings on retirement income security, rather than as part of the tax reform proposals. Concerned with frequency of major changes in the laws concerning pension and welfare benefits in the 10 years since ERISA was enacted. Concerned that employers not be discouraged from voluntarily establishing and maintaining pension and welfare benefit plans.

Uniform coverage test.—Opposes the uniform coverage test (which would require that the percentage of an employer's prohibited group members covered under a plan not exceed 125 percent of the percentage of nonprohibited group members covered under the plan) as unworkable in the pension and welfare plan area. Argues it would interfere with the flexibility that employers now have to design different plans to meet the needs of different groups of workers. Points out this proposal raises no revenue.

Tax-favored savings plans.—Opposes coverage and discrimination tests and the \$8,000 limit on 401(k) plan contributions. Opposes the 20 percent excise tax penalty on early withdrawals and the treatment of distributions as taxable earnings first, rather than a return of previously taxed employee contributions to tax-favored savings plans. Feels this would discourage contributions to the plans.

Health benefits.—Opposes floor on health benefits. Views it as regressive and fears it will be raised over time, thereby leading employees, particularly lower income ones, to choose not to be covered.

Robert S. Stone, Senior Corporate Counsel, IBM Corp., and Chairman, The ERISA Industry Committee

Employee pension, profit sharing, and savings plans—in general.—Points out that the provisions they are concerned about are estimated to produce relatively insubstantial revenue.

Coverage tests.—Concerned that the definition of the highly compensated—or the "prohibited group"—is a mechanical one that will produce problems and unusual circumstances and is not likely to accomplish the goal of balanced coverage of highly compensated individuals and other employees. (The "prohibited group" would include those earning over \$50,000, or the top 10 percent of payroll, and persons related to those individuals.) Concerned that a company with more than one plan for its employees could easily fail the

125 percent coverage test, even if all of its employees are covered by plans. (The coverage percentage for the prohibited group cannot exceed 125 percent of the coverage percentage for all other employees in order for the plan to be tax qualified.) Urges that coverage tests be removed from consideration in the tax reform proposals.

Restrictions on withdrawals from employee profit sharing and savings plans.—Urges that the current tax treatment of profit sharing and pension plans be preserved, both in terms of providing employees access to funds to meet needs which arise over a lifetime and in terms of providing flexibility in the form of payment of funds from qualified plans, including lump sum distributions. Opposes (1) denying employees access to their own after-tax contributions to a plan until all taxable money had been withdrawn so that any money withdrawn would, first, be subject to income tax; (2) eliminating 10-year averaging, special capital gains treatment and deferral of the unrealized gain on employer securities; (3) subjecting distributions prior to age 59½ to a 20-percent excise tax on top of Federal and State income tax (with the excise tax reduced to 10 percent in some instances); and (4) subjecting distributions over \$112,500 to an additional 10-percent excise tax on top of other income and excise taxes.

Restrictions on 401(k) plans.—Urges that if changes in the 401(k) are believed necessary by the Congress, they be kept limited and simple. Under the President's proposals 401(k) contributions would have to be tested under the \$8,000 cap (with IRA offset); the new, stricter average deferral percentage (ADP) test, sometimes including an employer matching test; and the new 15 percent of individual compensation limit under section 415.

Concerned that restrictions on potential access to funds will diminish the attractiveness of 401(k) plans for young workers. Under the proposals, distributions not only would be denied for any form of hardship but also would not be available after age 59½ unless the employee quit his or her job.

Change in 15 percent of compensation limit.—Opposes replacing the 15 percent of aggregate compensation limit with a limit of 15 percent of an individual's compensation.

Limit on employee contributions.—Opposes the elimination of the 6 percent of compensation "carve out" from the current law which states the lesser of one-half of an employee's own after-tax contributions to a qualified plan or the employee's contributions in excess of 6 percent of compensation are included in overall limits on contributions to qualified plans.

Robert A. Georgine, Chairman, National Coordinating Committee for Multiemployer Plans

Tax on employer paid health care benefits.—Opposes any tax on employer paid health care benefits, whether structured as a cap or a floor or otherwise.

Nondiscrimination in welfare and pension plans.—Urges that special rules be provided that are tailored to the special needs and nature of multiemployer plans. More specific rules are needed to deal with the treatment of excludable groups and aggregation of multiemployer plans.

Additional tax on early retirement benefits.—Suggests that “service pension” plans that allow participants to retire at any age with, e.g., 20 or 25 years of service should be exempt from the proposed 20-percent-additional tax on certain early retirement distributions. Mandatory small benefit cash-outs of \$3,500 or less should also be exempted. Distributions to compensate for uninsured casualty losses or to pay medical expenses should be subject to a reduced 10-percent tax.

Changes in IRC section 415 defined benefit limits.—Recommends that, at least for multiemployer plans, the \$10,000 minimum should continue to be phased in over years of service and should not be phased in over years of participation, as proposed. Suggests that the \$10,000 minimum should be indexed for inflation.

Limit on deductible contributions to a combination of defined benefit and money purchase pension plans.—Urges study of the effect of this proposal on multiemployers plans, especially in those industries where there has been contraction recently.

Modification of loan distribution rules.—Any legislative history should make clear that the statutory loan restrictions do not apply to adequately secured investments made in the ordinary course of an investment program, even if the plan participants are among the targeted market.

John N. Erlenborn, Partner, Seyfarth, Shaw, Fairweather & Geraldson, Washington, DC

Taxation of employee benefits—in general.—Urges committee to pay heed to practitioners with real work experience such as the American Society of Pension Actuaries in assessing the feasibility of the proposed uniform rules for nondiscrimination and for distributions. Supports proposals that direct tax preferences toward plans that provide a stream of income during retirement years, rather than mere capital accumulation. Believes the Tax Code has promoted the provision of health insurance benefits and retirement income security by the private sector in a cost-effective manner.

Bernard R. Tresnowski, President, Blue Cross and Blue Shield Association

Taxation of employer-provided health benefits.—Strongly opposes any taxation of employer-provided health benefits. Argues that a cap would impose a “sick tax” on older and chronically ill workers and their employers and would be regressive taxation. A floor would be a hidden tax surcharge on a majority of families, would hit low-income families the hardest, could actually increase health benefit costs, and is opposed by more people than any other major provision of the administration’s proposal. Suggests that if Congress wishes to address the differences in tax treatment of employer-provided versus nongroup health coverage that they reconsider the 1982 change which raised the threshold for claiming the medical expense deduction from 3 to 5 percent of adjusted gross income and the change which eliminated the separate deduction for health insurance premiums up to \$150. Recommends consideration of other approaches to provide tax incentives for the purchase of health coverage.

Dr. John Baumba, President, American Dental Association

Taxation of employer-provided health benefits.—Opposes any tax on employer-provided health benefits. Points out that if employees dropped dental benefits as a result of these proposals, alternative coverages would not be available since dental benefits must be offered on a group rather than an individual or family basis. Opposes floor as regressive and likely to be raised over time to raise additional revenues. Finds cap even more objectionable: it is likely to be lowered to zero over time and assures that employees demand that their employer contributions remain below the tax-free limit. Says dentistry studies have shown that a large proportion of employees will be willing to forego cost-effective, prevention-oriented dental benefits in order to avoid tax consequences. Feels it is a matter of equity that self-employed individuals be treated in the same manner as employees and at least be permitted to deduct or receive tax credits for payments for their health protection.

William O. Bailey, President, Aetna Life & Casualty, and Chairman, Health Insurance Association of America

Employee benefits—in general.—Supports the present system of tax incentives for group health and life insurance and pensions.

Group health insurance.—Opposed to any taxation of group health insurance. Not opposed to extending nondiscriminatory requirements to insured health plans but concerned that the specific recommendations developed by the administration are not workable. Says many health and pension plans would fail the new tests, especially plans sponsored by large firms with divisions engaged in a variety of businesses. Believes that rules in this area can most appropriately be developed outside the context of this tax reform proposal.

Section 401(k) plans.—Opposed to proposals that would discourage contributions to section 401(k) plans. Calls the \$8,000 limit unreasonable. Identifies as the most severe problems with the administration's proposals: effectively prohibiting withdrawals of employee elective contributions prior to an employee's separation from service; the new actual deferral percentage (ADP) test; the IRA integrated contribution limit.

Treatment of distributions from retirement plans.—Concerned about the increased 20-percent excise tax on early withdrawals, the 10-percent penalty tax on hardship withdrawal, and the elimination of 10-year forward averaging on lump-sum withdrawals. Believes that all retirement plan provisions should be removed from the tax reform legislation and debated in the context of national retirement policy.

Patricia Crane Ramsey, President, American Dental Hygienists' Association

Taxation of group health insurance.—Opposes both the tax floor and tax cap proposals for health insurance. Forecasts that such limits would lead taxpayers to cut back on health coverage and that, if forced to choose, taxpayers are likely to keep catastrophic insurance but cut back on prevention-oriented insurance like dental insurance.

Willis B. Goldbeck, President, Washington Business Group on Health

Nondiscrimination policy.—Recommends that for health benefits, the nondiscrimination test be one of availability—equality of access—not use.

Education assistance.—Encourages Congress to reestablish the tax exemption for employer-provided education assistance and to include employee health education. Says that to make this work, the requirement that all nontaxable education assistance lead to a degree must be removed and that other criteria of completion can be established.

Repeal exclusion for prizes and awards.—Requests that awards made to employees, covered dependents, or retirees for the discovery of inaccurate or false medical or hospital care charges remain excluded from tax.

Cafeteria plans.—Accepts Treasury's restrictions against the use of flexible spending account dollars for the payment of premiums. Feels nondiscrimination in terms of availability to all classes of workers is appropriate, but a nondiscrimination test for each benefit in a cafeteria plan is administratively burdensome and inappropriate.

Retirement policy.—Supports the changes in the spousal IRA, penalties for early distributions in qualified plans, and loan restrictions from qualified plans as all complying with the spirit of encouraging capital accumulation for the latter years of life. Also finds rules for actual deferral percentage (ADP) for 401(k) and other cash or deferred arrangements (CODA's) to be appropriate. Objects to the \$8,000 annual cap on 401(k) contributions integrated with IRA contributions and significant restrictions on "prohibited group members." Suggests Congress ponder the value of 401(k) and IRA dollars for catastrophic medical episodes and consider reducing the excise tax penalty for early withdrawals in those cases. Concerned that tax increase for retirees eventually will damage the private pension system. Does not support elimination of the 401(k) option for employees of tax-exempt firms. Wants Voluntary Employer Beneficiary Associations (VEBA's) to be able to prefund retiree medical costs through tax-free reserves.

Richard M. Jones, Vice Chairman of the Board, Sears, Roebuck & Co.

Benefits—general comment.—Feels there is not sufficient time for the Congress to fairly analyze the employee benefits area with all the important decisions that must be made in the whole tax reform proposal.

Profit sharing plans.—Points out that most profit sharing plans provide for lump sum distributions to retirees. Points out that roll-overs to an IRA are usually utilized by retirees with large lump sum distributions while many, particularly middle and lower income employees, elect to keep their funds. Emphasizes need for favorable tax treatment for lump sum distributions. Argues for deferral of tax on unrealized appreciation of the stock at the time it is withdrawn from the profit sharing trust and given to the retiree, until the time it is sold.

Savings plans.—Finds \$8,000 limit on an employee's elective contribution to a 401(k) plan contrary to the administration's stated goal of providing incentives for savings. Claims the proposed anti-discrimination rule would be so difficult to administer that the maximum rate of elective contributions would have to be cut back for all employees. Says a revision in the ADP is not needed; a reasonable cap on the amount of the elective contribution is sufficient to prevent discrimination in favor of the higher compensated employees. Says there is not valid reason for changing the rules on recovery of employee deposits on partial withdrawals, such that partial withdrawals would be considered first a return of income and then a return of after-tax deposits. Fears this would discourage participation by all employees, especially the younger ones. Points out that the proposal for an early distribution penalty fails to recognize that many employees retire before age 59½. Argues that the proposal to levy a 10-percent penalty tax on amounts in excess of \$112,500 received in any one year (including lump sum distributions, pensions, and IRA distributions) penalizes successful investments.

Antidiscrimination rules.—Predicts the proposed new antidiscrimination rules would result in disqualification of plans covering thousands of Sears employees, including pension plans, employee discounts on merchandise and services (even though the rate of discount offered is the same for all employees, higher paid employees are likely to buy more), medical plans (because of the new, more restrictive definition of a part-time employee), and group life insurance (because older employees are more likely to participate than younger ones). Argues different companies within an affiliated group of companies should be allowed to design their own balanced benefit program.

John E. Lanz, Senior Counsel, Benefits, TRW Inc., on behalf of the National Association of Manufacturers

Employee benefits—in general.—Asks for consistency in employee benefits policy, with less frequent changes in laws and regulations. Suggests a moratorium on employee benefits legislation to permit the issuing of regulations explaining past tax legislation. Feels the proposed changes would add complexity and expense and, with the exception of the health floor tax, not raise significant revenue.

Uniform nondiscrimination rules.—Says that the proposed nondiscrimination rules would require company-wide plans a matter that is of great concern to conglomerates in multiple lines of business located in various parts of the country.

Qualified plan distributions.—Feels hardship withdrawals should not be so severely restricted as to totally discourage individuals from saving altogether.

Excess plan assets.—Opposes the 10-percent excise tax placed on the amount of assets reverting to an employer upon termination of a defined benefit plan. Views this as penalizing prudent management of plan assets, possibly leading to underfunded plans, and encouraging defined contribution plans at the expense of defined benefit plans.

Health insurance tax.—Opposes floor as regressive and doing nothing to encourage health cost containment; its only advantage is administrative simplicity.

Contributions to 401(k) and IRA plans.—Opposes limiting an employee's yearly contributions to a 401(k) plan to \$8,000 offset by any contributions to an IRA. Says it would discourage participation and create administrative problems. Points out hardship withdrawals have been instrumental in encouraging rank and file workers to participate.

Walter Holan, President, Profit Sharing Council of America

Profit sharing plans—in general.—Points out that profit sharing plans have both a retirement and an incentive aspect, rather than a retirement aspect alone. Supports current tax treatment as consistent with that, and rejects the President's proposals in toto. Says current tax proposals represent a strong attack on those features which are found predominantly in profit sharing.

Employer deductibility.—Opposes proposal on employer deductibility that would eliminate the carryover provisions which permit companies in good years to put additional amounts into participant's accounts to balance off the years in which no contributions or smaller contributions were made. This is a particular problem for small companies with cyclical profits.

Contribution limit for participants.—Opposes annual 15 percent of compensation limit on amount which can be contributed to each individual's account as inhibiting the practice of allocating on the basis of employee's length of service as well as compensation.

Withdrawals.—Says the new penalty rules on withdrawals from profit sharing plans would severely limit savings in profit sharing plans, particularly by younger employees.

Lump sum distributions.—Feels the alternative of receiving a lump sum distribution should be protected to provide the retiree with flexibility. Consequently, opposes the abolition of 10-year averaging and capital gain taxation for lump sum distribution and of the exclusion of unrealized appreciation on distributed employer stock.

Nondiscrimination rules.—Opposes the new nondiscrimination rules as being complex, likely to disqualify even plans that cover all or nearly all employees, and likely to reduce the amount of employee savings.

Robert L. Strickland, Chairman, Lowe's Cos., Inc., Chairman, Employee Stock Ownership Association

Employee Stock Ownership Plans.—Recommends retaining the current laws on employee benefit plans, especially the existing tax treatment for employer stock in all plans. Asks that no changes to tax favored retirement plans be made until the Ways and Means task force on national income retirement policy submits its report, and until the General Accounting Office completes its current study on ESOP's. Points out that President's proposals would effectively repeal much work of the Congress since 1973 which has favored the growth of ESOP's. Argues that the proposal discriminates against rank-and-file employees in an ESOP by requiring them to sell stock when they retire, having to pay on market, not

cost basis, and pay at ordinary income rates, without benefit of capital gains treatment or 10-year averaging. Points out that the administration proposal recognizes only the leveraged ESOP and asks that the basic tax treatment of the nonleveraged ESOP be the same, as under current law. Enumerates 15 specific items in the administration's ESOP proposals that do not measure up to the ESOP association's statement of principles.

Douglas C. Borton, Chief Actuary and Director, Buck Consultants, Inc.

Employee benefits—in general.—Concerned that the President's proposals would drastically reduce socially desirable and necessary benefits for the low and middle paid. Urges the Congress to include realistic transition rules to safeguard against the effect of sudden changes in the law.

Defined contribution plans: savings and 401(k) plans.—Opposes the changes proposed for the current rules for 401(k) and savings plans. In particular, recommends the elimination of the excise tax on premature withdrawals, and the continuation of the current rules on withdrawals from 401(k) and savings plans. Recommends the elimination of the new deferral test under 401(k) plans and savings plans under which the deferral percentage of each individual member in the prohibited group would be measured against the average deferral for other participants, and the continuation of the current 401(k) percentage deferral test; feels an annual cap on employee deferrals would be sufficient to avoid any perceived abuses.

Opposes reducing the maximum 401(k) deferral by the individual's IRA deduction. If enacted, however, the burden of compliance should be placed on the individual, not on the plan. Believes that employees of nonprofit employers should be offered 401(k) plans with appropriate coordination with 403(b) plans. Pleased that the incentives for employee stock ownership plans would be continued.

Pension and welfare plans.—Pleased that the proposal would retain section 125 flexible benefit plans, but fears that basing non-discrimination rules on participation rather than on availability could prevent employers from tailoring benefits to suit different employee needs. Is especially concerned about the proposal to base the discrimination tests on all the employees of a controlled group.

Health insurance.—Concerned that the proposed floor tax on health insurance could increase in the future and lead to the taxation of other benefits.

Asset reversions.—Concerned that the proposed 10-percent tax on asset reversions from terminated pension plans could encourage employers to fund their retirement programs on the minimum basis permitted by law.

Edward E. Burrows, Chairman, Government Affairs Committee, American Society of Pension Actuaries

Employee benefits—in general.—Generally supports the President's tax proposals. Is concerned about frequency of legislative changes in the employee benefits area. Recommends "quinquennial implementation," under which legislation enacted in 5-year period would take effect one year after the end of the period. Argues there is a growing trend towards discrimination against small business.

Says small firms are unduly affected by rules against top-heavy plans due to higher ratio of "chiefs to indians." Feels same rules should apply to employees of all employers, whether large or small, for example, in the limit on the salary used to determine retirement benefits. Charges that complexity is a powerful disincentive to new plan formation and that the way to encourage employers to adopt and maintain plans is to strengthen incentives, not impose onerous burdens.

Discrimination against small employers.—Commends proposed 10-percent excise on distributions exceeding \$112,500. Recommends phased, but complete repeal of all of section 415; and immediate repeal of section 415(e) for *all* plans. Opposes proposal to count participation rather than service. Recommends that the 25 percent limitation of section 404(a)(7) be entirely repealed. Recommends that the highest-paid-three category be removed from the prohibited group definition, and that consideration be given to elimination of the 1-percent owner category. Recommends that all use of the concentration test for the highest paid 20 members be abandoned. Recommends that the \$200,000 limitation on compensation used to determine benefits for top-heavy plans either should be extended to all plans or it should be repealed. Argues that a fixed mandatory starting age is unnecessary. Recommends that the 15 employee minimum restriction on ESOP's be rejected. Believes that section 416 discriminates against small employers in vesting and integration.

Other areas of concern.—Recommends refinement of the 125-percent coverage test and of the proposed new employee stock ownership trust provisions. Recommends an increase in the annual limit for cash-option deferrals from \$8,000 to \$15,000, and an indexation of this limit as well as the \$200,000 limit on covered compensation. Recommends simplification of the upper-group/lower-group percentage tests for cash deferred plans. Rejects the 10-percent excise tax on asset reversions and the curtailing of profit-sharing deduction limitations.

Morton A. Harris, President, Small Business Council of America, Inc.

Frequent changes in law and bias against small business.—Says that there is a legislative bias against small employer qualified pension plans, particularly in the top-heavy rules introduced by TEFRA. Warns that the costs of repeated plan revisions and the costs of plan administration have made retirement plans expensive. Asks that the law become stable for a reasonable period of time and that small qualified retirement plans be treated no more restrictively than larger plans rather than being singled out for discriminatory treatment.

Retirement plans.—Says it is unfair to abolish the overall 1.25 limit on contributions and benefits for all plans other than small plans (i.e., top-heavy plans). Concerned about the additional 10-percent tax on benefits distributed which exceed 1.25 times the defined benefit dollar limit in effect for the year. Opposes limiting the 401(k) contribution to \$8,000 reduced by IRA contributions; feels present section 415 limitation is adequate. Opposes prohibited group member test as complicated; suggests a simpler one-fourth/

three-fourths test if the present one-third/two-thirds test is deemed inadequate. Sees different adjusted deferral percentages (ADP) as added complications. Rather than taxing excess contributions to a 401(k) plan suggests requiring them to be distributed prior to the end of the plan year without penalty of the early distribution recapture tax. Opposes requiring plan coverage of employees after only 1 year of service; favors applying same eligibility rules to 401(k) plans as currently apply to profit sharing plans. Opposes the 125 percent nondiscrimination test. Feels the present 70/80 test of section 410 is satisfactory.

Dorothy A. Walsh, Government Affairs Director, American Society for Training and Development

Employee educational assistance, IRC section 127.—Supports permanent extension of the tax exclusion for employee educational assistance and elimination of the current \$5,000 annual dollar limitation. Points out that section 127 permits training for a new trade or business, important for retraining workers, whereas only courses related to the current job would qualify as tax-free if section 127 expires in December 1985. Encourages rejection of the proposed nondiscrimination rules.

Nannerl O. Keohane, President of Wellesley College, speaking on behalf of Amherst College, Smith College, Wellesley College, Wesleyan University, and fourteen educational associations

Faculty housing programs.—Submits that the moratorium in section 531(g) of the 1984 Tax Reform Act that is applicable to faculty housing in the years 1984 and 1985 should be extended by Congress to the years prior to 1984, and a comparable rule should be adopted for years after 1985. Argues that the moratorium's cost standard is reasonable and appropriate and that the IRS has used unpredictable and inappropriate standards in the past for asserting withholding tax liability arising from traditional faculty housing programs. Maintains that participation in faculty housing programs does not give rise to income to the employee-tenants, that the programs were covered by the moratorium on fringe benefits regulations imposed by Congress since 1978, and that, in any event, any income to employee-tenants does not constitute wages subject to withholding tax liability of employers or to employment taxes. Points out that the employers have been left with little or no guidance by the IRS regarding the appropriate rentals to be charged or the amount subject to withholding or employment taxes if the rentals actually charged are ultimately determined to have been insufficient.

Philip D. Morrison, Ivins, Phillips & Barker, on behalf of Oberlin College

Section 117(d) tuition reduction plans and the proposed uniform nondiscrimination rules.—Explains that tuition plans under section 117(d) generally offer free or reduced tuition to dependents of employees of the granting institution or at another institution. Opposes the proposed utilization test instead of the present eligibility test for nondiscrimination, either in terms of percentage of participants or dollar amount of benefits. Points out that college tuition

reduction benefits will be utilized only by employees over 40 since few, if any, younger employees will have college-age children. Consequently, it is virtually impossible to devise a program under which younger, less experienced, and less highly paid employees actually receive even roughly the same level of benefits. Feels it would be impossible to meet the proposed nondiscrimination test even if a tuition reduction program is available to 100 percent of all nonunion employees. If a utilization test is to be applied, recommends only employees with college-age children should be compared. Argues there should also be grandfathering, i.e., any utilization test should not be used to tax a tuition benefit after an employee's child has entered college under a nondiscriminatory tuition reduction plan. If a percentage rule is to be applied, suggests using 200 percent rather than 125 percent for small groups, with 200 or fewer utilizers.

R. Theodore Benna, Executive Vice President, The Johnson Cos.

401(k) plans.—Thinks employees should be encouraged to accumulate retirement funds while they are young and feels that 401(k) plans have been a successful vehicle for this. Concerned that penalizing hardship withdrawals will discourage young people from participating. Recommends that withdrawals be permitted from 401(k) plans on the same basis as other retirement savings plans. Also recommends retaining the present antidiscrimination test rather than adopting the proposed more complicated prohibited group test. Feels that employer matching contributions should qualify as being nondiscriminatory if the elective contributions they are tied to satisfy the current antidiscrimination test.

Stanley C. Simon, Counsel, The Southland Corp.

Hardship withdrawals.—Wants to keep tax benefits relating to early distributions for financial hardship. Fears that unless employees know they can have access to their savings in times of need, they probably will choose not to participate, and that the participation rate would fall below the 70 percent required for plan qualification.

Antidiscrimination rules.—Says the proposed antidiscrimination rules, which are aimed at small, closely held businesses will have a negative impact on large profit-sharing plans like Southland's. Claims the President's plan would make it impossible for Southland's plan, which allocates larger contributions to long-service, older employees, to continue to operate. Feels that if two employees who start participating on the same day and retire on the same day have the same ratios of employer-contributed account balances to career compensation, the plan should not be considered discriminatory. Feels the current antidiscrimination rules are adequate.

Other issues.—Feels the \$8,000 ceiling on employee elective contributions under CODAs should be indexed. Believes that the proposed changes in the basis recovery rules (such that distributions from tax favored retirement plans would be considered, first, a taxable distribution and, second, as a tax-free recovery of employee contributions) would tend to discourage savings. Believes that the taxation of pension and profit-sharing plans should be considered

in the context of national retirement income policy, rather than as part of the tax reform package.

Richard B. Dixon, Treasurer and Tax Collector, County of Los Angeles, California

Public employee participation in 401(k) plans.—Opposes the proposed exclusion of the public sector from Section 401(k) eligibility. Feels availability of such plan allows State and local governments to compete more effectively with private industry for the best employees and makes it easier to keep such employees once they are hired. Rejects argument that section 457 plans are a satisfactory substitute for section 401(k) arrangements. Says section 457 was designed to provide government employees with income deferral opportunities similar to those available to private sector *unfunded* deferred compensation arrangements. Emphasizes that an unfunded section 457 plan is not protected by a trustee arrangement and amounts set aside are available to general creditors of the governmental employer. Points out that the policy concerns behind the proposed \$8,000 contribution limit and antidiscrimination rules are really not applicable to public sector employers. The salary range in the public sector is not as great as in the private sector. The public sector plan is not subject to manipulation and abuse, being constantly under the close scrutiny of the press and the public.

Gerald L. Uslander, Principal, William M. Mercer-Meidinger, Inc.

Section 401(k) plans.—Charges that the proposed changes to section 401(k) would accomplish the same result as an outright repeal. Claims that hardship withdrawal provisions in 401(k) plans are not overutilized and should be allowed. Fears that prohibiting in-service withdrawals will result in lower paid and younger employees ceasing to participate in these plans, and that they are unlikely to deposit these funds in an IRA either. Expects that the new proposed average deferral percentage (ADP) test would cause many employers to abandon 401(k) plans. Says the proposed \$8,000 limit on elective contributions is too low and arbitrary; it should be abandoned and 401(k) plan participants should be permitted to defer up to the contribution limitation that is allowed for other qualified defined contribution plans. Warns that the IRA contribution offset is an administrative nightmare. Because IRA contributions are permitted up to April 15 of the following year, it would be impossible for an employer to know with certainty and on a current basis if an employee would be making an IRA contribution. Suggests that if there must be a 401(k) deferral cap with an IRA offset, then the penalty for overcontributing should treat the IRA contribution as an excess contribution; disqualifying the 401(k) plan would penalize innocent employees, rather than only the offending employee. Feels that 401(k) plans should remain accessible at least to public employers and to any tax-exempt employer to whom a 403(b) tax-sheltered annuity is not available, if not to all public and tax-exempt employers.

Uniform nondiscrimination rules.—Points out that the proposed 125-percent uniform coverage test fails to take into consideration two-wage earner families where both spouses do not need coverage. Says if the test is deemed necessary, it should be on the basis of

eligibility for benefits. Feels that the uniform coverage and benefits tests ignore geographical differences in pricing of benefits and experience. Concerned with needs of employers in multiple lines of business. Asks that if uniform rules are deemed necessary, they should be designed so that aggregation is only necessary within a given single line of business.

Other issues.—Feels that the integration of long term disability and pension plans with Social Security should not be coordinated. Advises against further piecemeal legislation; asks for long-standing solutions. Hopes that any changes made either in the welfare plan or retirement plan area will contain adequate grandfathering of existing arrangements.

P. Daniel Demko, Executive Director, Public Employer Benefits Council

Public employer participation in section 401(k) plans.—Opposes proposal that would prohibit public employers from maintaining section 401(k) arrangements. Says it would put them and their employees at an unfair disadvantage vis-a-vis the private sector. Argues that section 457 does not result in duplicate deferrals by public sector employees to any significantly greater extent than permitted in the private sector with the unlimited nonqualified deferred compensation arrangements for management or highly compensated employees. Nor is section 457 a substitute of section 401(k) according to the legislative history. Further concerned that employees are not as likely to contribute to section 457 plans as to 401(k) plans. Feels that, in practice, because public employee salaries are likely to be relatively low, that excessive deferrals by public sector employees will not occur. If Congress feels that duplication must be addressed, the appropriate method is to offset the maximum contributions permitted under section 457 plans (and Section 403(b) annuity contracts) by contributions actually made under Section 401(k) arrangements, rather than depriving public employees of section 401(k) arrangements entirely.

Kenneth Feltman, Director of Government Relations, Employers Council for Flexible Compensation

Flexible compensation plans.—Explains that flexible compensation includes cash or deferred arrangements generally authorized under section 401(k) and cafeteria plans under section 125. States that the trend toward flexibility in compensation is here to stay: it meets the needs of a changing workforce that employers want to accommodate. Warns that placing a penalty on flexible compensation could cause a reversion to former, less suited forms of employee benefits. Argues that employees should be taxed on what they receive and not on what they might have received. Acknowledges that workable nondiscrimination rules are desirable, but says that unnecessary changes in the nondiscrimination rules cause needless expense and complications for employers without significant additional benefit to employees.

Joe D. Heusi, President, Variable Annuity Life Insurance Co.

Annuity purchase programs, IRC section 403(b).—Urges rejection of the proposal which would prohibit surrenders under section

403(b) contracts, except for death, disability, attainment of age 59½, or separation from service. Argues that access to funds in case of hardship is one of the key reasons why middle and lower income individuals are willing to participate in section 403(b) programs. Opposes a penalty tax (ordinarily 20 percent) on any surrender amounts which could be received before age 59½. Points out that amounts received as a result of a full or partial surrender of a section 403(b) annuity contract are fully taxable as ordinary income; the 10-year averaging rule and capital gains treatment applicable to lump sum distributions from qualified plans do not apply. Feels lower and middle income employees are the ones most likely to be penalized, and are the ones most likely to be discouraged from saving. Does not believe such a penalty is necessary or appropriate to encourage employees to participate primarily for retirement purposes. Opposes repeal of the catchup contribution limits applicable to section 403(b) annuities. Explains that the catchup provisions recognized that school teachers and other section 403(b) participants are generally unable to make significant 403(b) contributions during the early parts of their careers. Says the existing catch-up contribution limits provide no overall advantage to section 403(b) participants relative to participants in qualified plans, and that there is no reason for repeal.

July 11, 1985—Impact on Trade and Treatment of Foreign Source Income

Hon. Mario Biaggi, Member of Congress (New York), Vice Chairman, Committee on Merchant Marine and Fisheries, and Chairman, Subcommittee on Merchant Marine

Merchant Marine Capital Construction Fund (CCF).—Asserts that several specific elements of the administration's proposal would have severe detrimental effects on the maritime industry. States that the most important of these is the proposed repeal of the CCF. Argues that the CCF should be retained because it facilitates accumulation of capital by the maritime industry, has been successful in stimulating U.S. shipbuilding, assures continued renewal of the U.S. commercial fleet, and is the key to providing tax parity with foreign fleets.

Tax-exempt bonds used to construct port facilities.—Opposes repeal of tax exemption for interest on State and local bonds used to finance the construction of publicly owned port facilities that are leased to private operators. Argues that repeal of the tax exemption would have an adverse effect on the U.S. port infrastructure and would damage U.S. trade.

Deductibility of cruise ship travel expenses.—Objects to the proposed limitation on travel expenses incurred on board U.S. cruise vessels. Asserts that its retention would contribute to U.S. competitiveness in the passenger cruise industry, while its repeal would severely impact the U.S. passenger cruise vessel industry.

Other provisions.—Opposes the proposed extension of the period of economic depreciation, the repeal of the investment tax credit, and recapture of accelerated depreciation.

Hon. Norman F. Lent, Member of Congress (New York), Ranking Minority Member, Committee on Merchant Marine and Fisheries

Merchant Marine Capital Construction (CCF).—Opposes repeal of the CCF. Argues that repeal of the CCF would undermine the country's merchant marine and hamper national defense and economic security. States that the Defense Department and Department of Transportation are conductors of the Nation's sealift capability, and asserts that repeal of the CCF prior to the studies' completion would be premature. Maintains that repeal of the CCF would yield little additional tax revenue to the U.S. Treasury and suggests such a move would possibly lose tax revenues. Argues that foreign firms have tax advantages over U.S. firms; asserts that repeal of the CCF would therefore damage U.S. competitiveness.

Tax-exempt bonds used to construct port facilities.—Points out that the proposed restriction on the use of tax-exempt State and local bonds to finance privately used facilities would mean that port authorities could not issue tax-exempt bonds to construct fa-

cilities they intend to lease to the private sector. Argues that this restriction would be inequitable, because the benefits of port facilities accrue to the nation as a whole. Maintains that the alternative to tax-exempt bond financing is an increase in State or local taxes, the burden of which fall only on local residents. Argues the burden of tax-exempt bonds is spread among willing investors.

Deductibility of cruise ship travel expenses.—Opposes the restriction on the deductibility of expenses paid for conventions, seminars, or meetings held on cruise ships. Argues that the deduction has been the most important factor in keeping the U.S. passenger ship industry alive.

Other provisions.—Argues that repeal of the investment tax credit, and the proposed changes in the corporate tax rate, depreciation rules and minimum tax would all adversely affect the maritime industry because of its capital intensity.

Richard M. Hammer, Chairman, Committee on Taxation, U.S. Council for International Business

Foreign tax credit.—Strongly opposes the proposed replacement of the current overall limitation on the foreign tax credit with a per country limitation. Argues that the overall limitation does not result in a misallocation of U.S. investment abroad. Contends that a per country limitation would be administratively burdensome to both taxpayer and the IRS because of its complexity.

Supports retention of the separate foreign tax credit limitation for income from portfolio investments. Urges repeal of the separate limitation for oil income.

Source of income rules.—Opposes the proposed income sourcing rules for sales of inventory and other personal property. Argues that changing from current rules, which generally assign income to the country of title passage, to sourcing based on country of residence, would reduce certainty. Argues that sourcing of income based on title passage is based on the economic reality of passage of risk. Opposes the elimination of the "80-20" corporation exception to normal sourcing rules. Supports modification of sourcing rules for intangible property.

Edward G. Jefferson, Chairman and Chief Executive Officer, E.I. Du Pont de Nemours & Co.

In general.—States that the national budget and trade deficits constitute major impediments to economic growth. Argues that tax policy and tax reform should therefore give top priority to correction of such deficits. Argues that the administration's plan would increase taxes on business, and would therefore have a negative effect on trade.

Investment tax incentives.—Argues that proposed repeal of the investment tax credit, replacement of the accelerated cost recovery system, recapture of taxes deferred through accelerated depreciation, and changes in the foreign tax credit would each damage U.S. trade and international competitiveness.

Dean O. Morton, Executive Vice President and Chief Operating Officer, Hewlett-Packard Co.

In general.—Supports the President's proposal, in general. Argues that the plan will reduce disparities in effective tax rates among industries, thereby leading to more efficient allocation of investment. Maintains the plan will therefore lead to a stronger economy and will increase employment.

Specific provisions.—Views favorably the reduction of income tax rates and extension of the R&D tax credit. Opposes certain proposals in the international area, including changes in the foreign tax credit limitation, changes in the source of income rules, failure to make permanent the suspension of rules on allocation of R&D expenses, and changes in the possessions tax credit. Opposes the proposed windfall tax on accelerated depreciation as unfair and conceptually flawed.

John K. Meagher, Vice President, Government Relations, LTV Corp., on Behalf of the Basic Industries Coalition, Inc.

In general.—Argues that the U.S. economy is in a weakened competitive position with respect to foreign countries. Maintains that the administration's tax proposal would exacerbate the situation by raising the cost of capital to manufacturing and by encouraging off-shore production.

Business alternative transfer tax (BATT).—Proposes adoption of a BATT on net transfer of goods and services by businesses; argues that a BATT would more nearly harmonize U.S. taxation with that of its trading partners. Maintains that a BATT would raise additional tax revenues, alleviate the trade deficit, and force the rationalization of worldwide capacity.

Edward J. Schlegel, Caterpillar Tractor Co.

International competitiveness.—Asserts that the President's tax plan would obstruct companies attempting to respond to foreign competition. Argues that the most direct adverse effects would result from changing the foreign tax credit limitation from an overall limit to a per country limit, and from changing the source of income rules. Argues that these changes would have an adverse effect on exports. Supports retention of the accelerated cost recovery system and the investment tax credit.

James L. Koontz, President and Chief Executive Officer, Kingsberry Machine Tool Corp., on Behalf of Invest to Compete Alliance

Investment tax credit.—Supports retention of the investment tax credit. Argues that the credit is the key factor in the process that enables the U.S. to compete with foreign business. Maintains the credit reduces the flow of U.S. jobs to foreign countries, keeps the United States competitive in the face of an overvalued dollar, and produces greater productivity and innovation. Asserts that the credit is useful to a broad range of businesses and is critical to sectors of the economy least able to withstand further economic slumps.

Jack Bennett, Senior Vice President and Director, Exxon Corp.

Foreign income proposals.—Contends that the administration's foreign income proposals would severely damage the competitive position of U.S. petroleum companies. Maintains the proposals would not raise significant tax revenue, would damage the U.S. economy, and would reduce U.S. employment. Opposes changes in the foreign tax credit limitation, changes in the treatment of foreign losses, changes in the rules for allocating interest expense, and changes in source of income rules.

Ronald J. Joranko, Director of Taxes, TRW, Inc.

In general.—Supports the President's proposal in general. Views favorably the proposed reduction of the statutory corporate tax rate, and the proposed capital cost recovery provisions. Asserts that changes should be made in the plan to enhance the international competitiveness of U.S. industry.

International tax provisions.—Asserts that the imposition of a percountry limitation on the foreign tax credit would put U.S. industry at a competitive disadvantage in overseas markets. Proposes making permanent the moratorium on certain rules relating to the allocation of R&D expenses.

John Ludington, Chairman and Chief Executive Officer, Dow Corning Corp., on Behalf of the National Foreign Trade Council

Foreign-source income proposals.—Supports the broad thrust of the administration's tax plan. Opposes, however, the proposed changes in the foreign tax credit limitation and in the rules for determining the source of income. Argues that these changes would severely inhibit the ability of U.S. firms to compete internationally.

James Q. Riordan, Senior Vice President and Director, Mobil, Corp.

Foreign-source income provisions.—Opposes proposed changes in the limitation on the foreign tax credit; in the rules for allocation of expenses, and in the provisions for determining the source of income. Argues these changes would result in double taxation, lead to noncompetitiveness for U.S. companies, and would complicate the administration of tax laws. Asserts the proposed changes would make the tax system less simple, less fair, and would lead to less growth.

Hon. Ron de Lugo, Member of Congress (Virgin Islands)

Changes in the mirror system of taxation.—Supports the proposed changes in the territorial mirror system of taxation insofar as they apply to individuals. With respect to corporate taxation, argues that the proposed repeal of the inhabitant rule would severely inhibit the Virgin Islands' ability to attract U.S. corporate investment.

Changes in secs. 936 and 934(b) of the Internal Revenue Code.—Points out that under the administration proposal the present section 934(b) tax incentive to invest in the Virgin Islands would be replaced by the section 936 tax incentive, which itself would be changed to a wage credit. Argues that the proposed wage credit would not be sufficient to attract labor intensive industries to the

Virgin Islands. Maintains that the wage credit would not be sufficient to offset the attraction for U.S. investors of foreign countries with low taxes, low wages, and little regulation.

Hon. Fofu I.F. Sunia, Member of Congress (American Samoa)

Proposed changes in the sec. 936 possessions tax credit.—Opposes replacement of the current section 936 possessions tax credit with a wage credit. Maintains that the proposed change will lead to a reduction in investment by the tuna industry, the only industry in American Samoa. Argues that changing the current section 936 credit to a wage credit would damage the competitiveness of the industry vis-a-vis foreign producers.

Incorporates in testimony a statement by the Governor of American Samoa and a statement by a firm operating in American Samoa, both of which oppose alteration of the section 936 credit.

Hon. Juan F. Luis, Governor, U.S. Virgin Islands

Taxation of Virgin Islands income of individuals.—Supports changes in the Virgin Islands mirror system of taxation with respect to individuals. Argues the changes would eliminate inequities inherent in the current system of taxation.

Taxation of corporate investment in the Virgin Islands.—Maintains that the Virgin Islands Industrial Incentive Program, provided under section 934(b) of the Internal Revenue Code, has generated significant employment and economic activity in the Virgin Islands. Argues that restriction of the section 934(b) incentive would alter long-standing principles governing the tax relationship between the United States and the Virgin Islands, would inhibit the territory's ability to attract U.S. investment, and would damage the economic self-sufficiency of the Virgin Islands. Maintains that the section 936 wage credit, which would replace the current tax incentive, would be ineffective in attracting investment.

Hon. Edward D. Reyes, Lieutenant Governor, Territory of Guam

Mirror system of taxation.—Supports the proposal to give Guam the right to levy its own tax system. Argues that the current mirror system is an unreliable source of revenue and difficult to administer.

Hon. Jaime B. Fuster, Member of Congress (Puerto Rico)

Alteration of the sec. 936 possessions tax credit.—Opposes the proposed replacement of the section 936 possessions tax credit with a wage credit. Maintains that the tax credit has stimulated U.S. investment in Puerto Rico, leading to a successful economic development program. Argues that the section 936 credit is part of an important effort by the United States to enhance its political relationship with the people of Puerto Rico. Argues that a rigorous analysis should be conducted of the effects of section 936 on Puerto Rico, as well as of the effects of the proposed wage credit.

Hon. Rafael Hernandez Colon, Governor, Commonwealth of Puerto Rico

Replacement of the sec. 936 credit with a wage credit.—Opposes the replacement of the current section 936 tax credit with a wage

credit. Argues that the proposed change would destabilize the Puerto Rican economy, increase unemployment, and cause many Puerto Ricans to migrate to the U.S. mainland. Argues that section 936 stimulates employment and sustains Puerto Rican economic development. Maintains that repeal of the provision would not increase U.S. tax revenues, and would increase unemployment-related payments by the government. Outlines steps the Puerto Rican Government has taken to maximize job creation through section 936.

Antonio J. Colorado, Administrator, Economic Development Administration, Government of Puerto Rico

Replacement of the sec. 936 credit with a wage credit.—Maintains that the section 936 tax credit, together with Puerto Rico's own tax incentives, has been the cornerstone of Puerto Rico's industrial development program. Argues that the replacement of section 936 with a wage credit would greatly curtail the promotion of new manufacturing plants in Puerto Rico and would restrict the expansion of existing plants. Asserts that the proposed change would increase unemployment in Puerto Rico.

Vicente Dordal, President, Puerto Rico Manufacturers Association

Replacement of the sec. 936 credit with a wage credit.—Opposes replacement of the current section 936 tax credit with a wage credit. Argues that the section 936 tax incentive, along with Puerto Rico's own tax incentives, are the crucial factors that compensate for the island's with a wage credit would have devastating effects on the economy of Puerto Rico, discouraging new investment in capital intensive industries and encouraging the flight of labor intensive industries.

Manuel Garrido, President, Chamber of Commerce of Puerto Rico

Replacement of the sec. 936 credit with a wage credit.—Opposes the replacement of the section 936 tax credit with a wage credit. Argues that section 936 has been the basis for Puerto Rico's economic development. Maintains that the section 936 provisions also make a positive contribution to the U.S. economy.

Frederic H. Brooks, Chairman of the Board, MacGregor Sporting Goods, Trustee and Treasurer, Caribbean Central American Action

Replacement of the sec. 936 credit with a wage credit.—Opposes the proposed replacement of the section 936 tax credit with a wage-based tax credit. Argues that section 936 complements the objectives of the Caribbean Basin Initiative (CBI), and encourages economic development in the Caribbean region in general. Points to Puerto Rico's "twin plant" program as a direct link between section 936 and investment in other Caribbean nations.

Hector Ledesma, President, Banco Popular of Puerto, on Behalf of the Puerto Rican Bankers Association and the Private Sector Steering Committee To Preserve Section 936

Replacement of the sec. 936 tax credit.—Maintains that the section 936 tax credit has strengthened the financial system of Puerto

Rico, and thus the entire economy. Argues that section 936 has stimulated employment in Puerto Rico, both directly and indirectly. Asserts that the section 936 tax credit is an essential element of Puerto Rico's program for supporting the Caribbean Basin Initiative.

Mariano J. Mier, President, First Federal Savings Bank of Puerto Rico, on Behalf of the Puerto Rico Savings and Loan League

Proposed changes in the sec. 936 tax credit.—Argues that the President's proposal should be altered so as not to curtail the benefits associated with the section 936 tax credit. Argues that the proposed replacement of the current provisions with a wage-based tax credit would disrupt Puerto Rico's savings and loan industry and render the construction industry unable to cope with Puerto Rico's housing shortage.

Millie Tores, Chair, National Puerto Rican Coalition

Proposed changes in the sec. 936 tax credit.—Opposes the proposed replacement of the current section 936 tax credit with a wage-related tax credit. Argues that such a change would accomplish neither fairness, growth, nor efficiency.

Jerry K. Myers, President, Puerto Rico, U.S.A. Foundation

Repeal of the sec. 936 tax credit.—Opposes repeal of the current section 936 tax credit. Argues that the provision's repeal would cause high technology and other types of operations to leave Puerto Rico. Maintains that the proposed wage credit replacement for section 936 would not be effective in attracting labor-intensive firms. Asserts that it is unwise to repeal section 936 in view of the current struggle of high technology firms to retain their international competitiveness. Argues the Treasury Department has overstated the cost of section 936 in terms of foregone tax revenues.

Gerald J. Mossinghoff, President, Pharmaceutical Manufacturers Association

Replacement of the sec. 936 tax credit with a wage credit.—Opposes the proposed replacement of the current section 936 tax credit with a wage-related tax credit. Argues that such a change would damage the economic stability of Puerto Rico and the political stability of the Caribbean Basin in general. Asserts that the change would not generate significant additional tax revenues. Maintains the costs of repealing section 936 therefore outweigh the benefits. Appends to his statement a report by Norman B. Ture (Institute for Research on the Economics of Taxation) which maintains that studies by the U.S. Treasury have understated the employment generated by section 936 and overstated its revenue costs.

William F. Haddad, Chairman, Generic Pharmaceutical Industry Association

Proposed replacement of the sec. 936 tax credit with a wage credit.—Opposes replacement of the current section 936 tax credit with a wage-based tax credit. Argues that the alterations in section 936 that were enacted under the Tax Equity and Fiscal Responsibility Act of 1982 have improved the design of section 936. Main-

tains that repeal of the tax credit would be costly in terms of payments related to unemployment. Asserts that the proposed minimum corporate tax would help prevent abuses of section 936.

**July 12—Impact on Trade and Treatment of Foreign Source
Income**

Charles E. Exley, Jr., Chairman of the Board and President, NCR

Changes in the foreign tax credit.—Submits for the record a letter to Treasury Secretary Baker that was coauthored by himself and 12 other chief executive officers. Opposes replacing the current overall limitation on the foreign tax credit with a per country limitation. Argues that such a change would reduce American competitiveness, distort investment decisions, reduce the flow of repatriated capital into the domestic economy, increase the risk of double taxation, and impose large administrative burdens on both the Internal Revenue Service and business.

Richard M. Furlaud, on Behalf of the Emergency Committee for American Trade

Changes in the foreign tax credit.—Opposes replacing the current overall limitation on the foreign tax credit with a per country limitation. Argues that such a change would force American companies to compute their tax liabilities in an unfair manner. Maintains that a per country limitation would place U.S. firms at a competitive disadvantage, and would introduce unprecedented administrative costs. Asserts that the proposal addresses abuses in the current system that are illusory.

Thomas C. Theobald, Vice Chairman, Citicorp/Citibank, N.A., on Behalf of the Emergency Committee for American Trade

Changes in the foreign tax credit and source of income rules.—Opposes the proposed replacement of the current overall limitation on the foreign tax credit with a per country limitation. Objects also to the proposed changes in the current rules for determining the source of income earned from international transactions. Argues that the effect of both proposals would be to increase the costs to U.S. firms of doing business abroad, thereby making U.S. business less competitive in world markets.

Brian T. Petty, Manager of Government Affairs, International Association of Drilling Contractors

Change in the limitation on the foreign tax credit.—Opposes the proposed replacement of the current overall limitation on the foreign tax credit with a per country limitation. Argues that the proposed change would be inequitable, would increase the complexity of the tax system, and would have an adverse impact on the competitiveness of the U.S. drilling industry.

Philip C. England, Vice President, Tax, Sea-Land Corp.

Changes in the foreign tax credit.—Opposes replacing the current overall limitation on the foreign tax credit with a per country limitation. Argues that such a change would have an adverse effect on the competitiveness of U.S. firms, would reduce the repatriation of funds from foreign subsidiaries, and would increase the complexity of the tax system.

John Couch, President and Chief Operating Officer, Matson Navigation Co., Inc.

Repeal of the Capital Construction Fund (CCF) Program.—Opposes the proposed repeal of the Capital Construction Fund Program. Argues that repeal of the CCF program would make it difficult for U.S. steamship firms to accumulate amounts of capital necessary to maintain modern, efficient fleets. Asserts that the proposed change would abrogate existing contracts between steamship firms and the United States. Maintains that repeal of the CCF, along with elimination of the investment tax credit and accelerated cost recovery system, would compromise the objective of maintaining a strong merchant marine.

Thomas B. Crowley, Chairman and President, Crowley Maritime Corp., Council of American-Flag Ship Operators

Repeal of the Maritime Capital Construction Fund (CCF).—Opposes repeal of the Maritime Capital Construction Fund. Argues that such a change would have a devastating effect on the U.S. merchant marine and the support functions of merchant vessels for the national defense. Asserts that repeal of the CCF would eliminate existing vested contract rights, and would thus be unconstitutional. Attaches a legal memorandum discussing the constitutionality of repealing the CCF.

Perry Moran, Vice President, Corporate Affairs, Delta Queen Steamboat Co.

Tax deductions for meetings on U.S. passenger vessels.—Opposes the proposed repeal of the current tax deduction for attending conventions or other business meetings aboard U.S.-flag vessels. Asserts that such a change would result in a significant loss of business by the Delta Queen Steamboat Co., and would have a disastrous effect on the company, its shareholders, and employees.

Peter J. Luciano, Executive Director, Transportation Institute

Tax reform proposals affecting U.S.-flag marine transportation.—Opposes repeal of the maritime Capital Construction Fund, the investment tax credit, the accelerated cost recovery system and the tax deduction for business meetings held on board U.S.-flag passenger ships. Argues that the rationale behind the repeal of the provisions erroneously assumes there is no national security justification for a U.S. merchant marine, and wrongly supposes that U.S. shipping operations currently receive preferential tax treatment.

Thomas Horst, Director of International Tax Analysis, National Affairs Office, Deloitte Haskins & Sells

Tax treatment of foreign exchange gains and losses.—Strongly supports the President's proposals regarding foreign exchange gains and losses. Characterizes the present rules as inconsistent. Asserts that the President's proposals would provide a reasonable and clear resolution of many difficult issues in this particular area.

Don Martin, Manager of Taxes, Raymond International, Inc., and Chairman, Tax Committee, National Constructors Association

Tax reform and the international competitiveness of the U.S. engineering and construction industry.—Opposes the replacement of the current overall limitation on the foreign tax credit with a per country limitation. Supports the President's proposal to allow taxpayers the choice, on a country-by-country basis, of either crediting or deducting foreign taxes. Proposes that income from technical contract services be assigned to sources according to the rules proposed by the administration for sales of intangible property. Opposes the President's proposed allocation of expenses on a country-by-country basis. Objects to the proposal that losses offset a pro rata portion of all worldwide income. Considers unacceptable the proposed allocation of withholding taxes on dividends to countries in which the income of the subsidiary generating the dividends has been earned. Objects to the allocation of foreign subsidiary earnings on a per country basis. Argues that the proposed tax treatment of foreign exchange gains and losses do not accomplish the goals of simplification and parity.

July 17—Impact on State and Local Governments

Hon. Jacob K. Javits, former Senator from New York

State-local tax deductibility.—Believes the administration's reasons for eliminating deductibility run counter to reality, to the U.S. Federal system, to comity between the States, and to equal treatment of their citizens. Says it is extraordinary that the administration would eliminate deductibility at the very time when the new federalism preached by the President proposes additional burdens on local governments.

Hon. Howard Wolpe, Member of Congress (Michigan), and Hon. Frank Horton, Member of Congress (New York), Co-Chairmen, Northeast-Midwest Congressional Coalition

State-local tax deductibility.—Claim eliminating deductibility would pit State against State, region against region, taxpayer against taxpayer, and would introduce double taxation. Suggests the provision is not a loophole, but is a fundamental element of federalism. Says elimination would violate reciprocal immunity whereby States don't tax Federal property and Federal Government does not tax State and local activities. Maintain that provision benefits many taxpayers other than the few high-income taxpayers in high-tax States claimed by the administration.

Hon. Virginia Smith, Member of Congress (Nebraska)

Industrial development bonds.—Claims the 1-percent rule will have a chilling effect on the ability of local governments to encourage business expansion, diversification, and development of job opportunities. Agrees that abuses of IDB's should be corrected, but that their rise to provide a loan pool for hospitals and nursing homes is a good example of public purpose tax-exempt financing.

Hon. Bill Green, Member of Congress (New York)

State-local tax deductibility.—Claims State-local taxes do not necessarily provide equivalent benefits to taxpayers because some States and localities are forced to assume greater social responsibilities than other States, which sometimes accounts for the high taxes and expenditures. Proposes a compromise that allows taxpayers to deduct the portion of their taxes which exceeds the percentage of AGI represented by the deductible taxes of the average itemizer in the State with the lowest average tax burden (of deductible taxes).

Hon. F. James Sensenbrenner, Jr., Member of Congress (Wisconsin)

State-local tax deductibility.—Proposes that high-tax States be given time to adjust by allowing the deduction to be phased out over a 5-year period beginning in 1986. His plan allows for full de-

duction in 1986, 75 percent in 1987, 50 percent in 1988, 25 percent in 1989, and complete repeal in 1990.

Joseph M. Giglio, General Partner, Bear Stearns & Co., Chairman, Private Sector Advisory Panel on Infrastructure Financing

Tax-exempt bonds, ACRS, and ITC.—Believes the repeal of ACRS and the ITC, and the restrictions on tax-exempt bonds will decrease total investment in infrastructure. Maintains the change to exempting only those bonds that sustain facilities used by a government would impede many types of infrastructure financing, such as resource recovery and wastewater treatment. Proposes a specific list of public purposes which should be tax exempt and the ownership conditions which should prevail. In addition, believes the arbitrage and advance refunding provisions would restrict accepted cash management practices.

Benjamin M. Rawls, President, Engineering Design and Program Management Group, Research-Cottrell, Chairman of the Board, Metcalf Eddy, and Member, Private Sector Advisory Panel on Infrastructure Financing

Tax-exempt bonds, ACRS, and ITC.—Believes infrastructure for environmental objectives is increasingly provided via public-private partnerships, which lower costs, share risks, and provide alternative management. Suggests the treatment of ACRS, ITC, and tax-exempt bonds makes these public-private partnerships feasible, and that the reform proposal would seriously affect their economic feasibility.

Hon. John Carlin, Governor, State of Kansas, and Hon. Richard D. Lamm, Governor, State of Colorado, for the National Governors' Association

State-local tax deductibility and tax-exempt bonds.—Suggest that State-local tax deduction is contributing a disproportionate share of base broadening compared to other deductions, that the shift in spending from State-local to the Federal Government would reduce efficiency, and that other deductions are more inequitably distributed than the State-local tax deduction. Favor limitation with a 1-percent floor or a percent disallowance. Suggest the bond proposals would cause reduced demand for tax-exempt bonds and raise borrowing costs for projects which would be financed with taxable debt.

Hon. Mario M. Cuomo, Governor, State of New York

State-local tax deductibility, tax treatment of the family.—Believes deductibility must be retained because it is part of the overall subsidy structure built into the Tax Code and budget, and it helps States meet their needs. Says the reform proposal is prejudiced against two-earner families. Maintains that not even the administration believes the reform plan is revenue neutral, and that the deficit can be attacked by restoring some of the provisions in the Treasury I tax reform.

Hon. Richard L. Thornburgh, Governor, Commonwealth of Pennsylvania

State-local tax deductibility.—Says deductibility works to the advantage of a small percentage of persons with high incomes living in States with high and steeply graduated tax rates. Says two-thirds of Americans who are nonitemizers end up subsidizing those who do itemize. Wants the President's plan moved forward without unravelling it.

Andrew P. O'Rourke, County Executive, Westchester County, New York

State-local tax deductibility, tax-exempt bonds.—Asserts the 1-percent provision as an eligibility test for tax exemption of bond interest would seriously diminish local governments' ability to work with the private sector. Maintains deductibility of taxes preserves ability of State-local governments to raise revenues and provide services, promotes equity in the Federal tax system, avoids excessive cumulative tax rates, and helps preserve independence of State and local governments.

John Bragg, Deputy Speaker, Legislature of Tennessee, President, National Conference of State Legislatures

State-local tax deductibility, tax-exempt bonds.—Says deductibility should be retained for five reasons: to avoid increasing financial pressure on State and local governments, to maintain balance in the Federal system of government, to avoid skewing priorities, to avoid greater tax competition, and to avoid double taxation. Maintains the tax-exempt bond provisions are ambiguous and confusing, and are neither fair nor simple. Says certain obvious public purpose uses would be prohibited.

Patrick G. Halpin, Assemblyman, Lindenhurst, New York

State-local tax deductibility.—Says our Tax Code is a statement of economic and social policy. Maintains most of local taxes is for public education, and eliminating deductibility would penalize those making this investment.

Don Bailey, Auditor General, Commonwealth of Pennsylvania

State-local tax deductibility and tax-exempt bonds.—Says the proposed changes will have a devastating impact upon both State and local governments. Maintains that the 1-percent rule would adversely affect 80 percent of State-local bonds issued in Pennsylvania. Suggests deductibility of taxes has been a cornerstone of the carefully constructed federalism concept of share responsibilities and resources.

Al Bilik, Executive Director, State and Local Division, Public Employee Department, AFL-CIO

State-local tax deductibility.—Urges retention of deduction for State-local taxes in order to not tax a tax. Says the deduction is not a necessary precondition for rate reduction. Says rate reduction should be funded by reforming the method by which corporations calculate depreciation deductions, and that the capital cost recov-

ery system proposal is actually more generous than ACRS. Says tax relief should be targeted to middle- and lower-income taxpayers.

Joseph Sensenbrenner, Mayor, Madison, Wisconsin, Chairman, Task Force on Tax Reform, U.S. Conference of Mayors

State-local tax deductibility.—Says deductibility should be retained because it prevents double taxation, treats contributions to public and private schools the same, maintains a deserved break in State-local taxes since taxes paid to foreign countries receive a tax credit, treats owner-occupied homeowners the same as those who own rental property.

Tax-exempt bonds.—Opposes the 1-percent test, the arbitrage and advance refunding proposals, and the elimination of bank deductions for borrowing to finance bond purchases.

Rehabilitation and historic preservation tax credits.—Has misgivings about the proposed termination of this credit. Says it is important to viability of cities to maintain the credit.

Kyle C. Testerman, Mayor, Knoxville, Tennessee

Tax-exempt bonds and ITC.—Says if these proposals are enacted in their present form, they will drastically reduce public and private infrastructure expenditures to the point that the benefits of any currently projected revenue enhancement will be minimized or entirely lost. Suggests these proposals are nothing more than a vehicle for shifting the cost of revenue enhancement to State and local governments.

John T. Walsh, Finance Director, Hartford Connecticut, President, Government Finance Officers Association

Tax-exempt bonds.—Says it may be possible to restrict the issuance of obligations that are for the primary benefit of private users, and it is certainly not irresponsible to insert this concept into the tax reform debate. Suggests a workable definition of public purpose should be developed. Says the administration's proposals are not reforms that curb nongovernmental users, but are an assault on all tax-exempt bonds. GFOA proposes a three-part test for tax exemption: the financed facility is publicly owned, the issuer is functionally involved in the project, and the issuer is financially involved in the project.

Henry M. Huckaby, Executive Director, Georgia Housing Authority, President, Council of State Housing Agencies

Tax-exempt housing bonds.—Says a definition of public purpose cannot be based on some arbitrary percentage of use, or on ownership of a project, but rather upon the ultimate social and economic benefits. Contends that helping low- and moderate-income Americans achieve the American dream of homeownership is a public purpose. Says elimination of tax-exempt financing will halt production of 25 to 30 percent of all rental units financed by State-local agencies.

Kenneth R. Johnson, Executive Director, St. Paul Housing and Redevelopment Authority, President, Association of Local Housing Finance Agencies

Tax-exempt housing bonds.—Says that while Americans are being asked to accept their fair share of cuts in direct Federal assistance programs or tax incentives, local governments are the only ones being forced to accept reductions in both. Suggests the use of tax-exempt bonds for rental housing has already been subjected to a public-purpose test by previous legislation, and that it is carefully regulated by local government.

Theodore B. Howard, President, Economic Development Corporation of Los Angeles County

Small issue IDB's.—Asserts that the concern with abuses of IDB's is well taken, and that the Tax Acts of 1982 and 1984 have corrected the abuses. Says old myths about small issue IDB's die slowly, and that empirical information is being developed, the preliminary results of which suggest a public purpose is served.

Paul B. Gaines, Director of Aviation, Houston, Texas, on behalf of Committee for Financing Public Transportation Facilities

Tax-exempt bonds for airport, seaport, and mass transit facilities.—Asserts that local government agencies would have to issue taxable bonds for runways, airport terminal buildings, and wharves and docks because they are used more than 1 percent by the scheduled airlines and by shippers of ocean-born commerce. Suggests the only way to circumvent the 1-percent rule and issue tax-exempt bonds would be to have local governments buy up and operate U.S. airlines.

Ronald L. Bailey, Executive Director, Illinois Farm Development Authority

Agricultural IDB's.—Says aggie IDB's are targeted to young farmers, which is critical to reducing the average age of farmers. Maintains agriculture is suffering through crisis, and aggie IDB's create one of the few opportunities available to young farmers.

Paul Fry, Assistant Executive Director, American Public Power Association

Tax-exempt bonds for public power.—Says five provisions are inimical to the interest of public power: the 1-percent rule, management contracts would preclude tax-exempt financing, the arbitrage regulations, advance refunding, and reporting requirements. Maintains these provisions would restrict public power's ability to operate efficiently and competitively.

Jesse C. Tilton III, General Manager, Indiana Municipal Power Agency

Tax-exempt bonds for public power.—Asks that any bill include three provisions. First, that it retain the 25-percent rule. Second, that it allows tax exemption for a contract management arrangement. And third, that it retain the arbitrage and advance refunding procedures of current law.

Avron B. Fogelman, President and Chief Executive Officer, Fogelman Properties

Tax-exempt bonds for multi-family housing.—Says that tax-exempt bond financing has resulted in enormous growth in the construction and rehabilitation of multifamily housing. Maintains that these bonds create incentives for the private sector to further the public purpose of providing housing for thousands of low- and moderate-income Americans. Without the tax-exempt subsidy, the housing either will not be affordable to these families, or the quality or construction and amenities offered will suffer.

Jean J. Rousseau, Senior Vice President, Merrill Lynch, Chairman, Public Securities Association

Tax-exempt bonds.—Says bond provisions will raise the cost of State-local capital improvements, reduce working partnerships with the private sector, and encourage creation of new Government bureaucracies. Maintains the provisions shift taxes from the Federal to the State-local level, and constitute a serious blow to New Federalism.

Barney Parker, Superintendent, Ada-Boise County School District #1, Idaho

Advance refunding.—Says New Federalism has caused Federal grants to decline, and the financial flexibility of local government would be further hamstrung by the advance refunding provision. Says this provision saves local governments considerable money.

Patricia M. Hayes, Commissioner, Colorado State Board of Education

Advance refunding.—Emphasizes that advance refunding is limited by Federal law to public-purpose debt. Says this tool is important to municipal debt management.

Robert Cenci, Vice President, Goldman Sachs, Chairman, Healthcare Financing Study Group

Tax-exempt bonds for nonprofit health care facilities.—Believes the 1-percent rule, advanced refunding, and arbitrage proposals would deal a severe blow to the capital access of the nonprofit hospital sector. Maintains that adequate safeguards exist such that the public purpose of nonprofit hospitals is assured.

George Phillips, Jr., Executive Director, Illinois Health Facilities Authority, Chairman, National Council of Health Facilities Finance Authorities

Tax-exempt bonds for nonprofit health care facilities.—Asserts nonprofit hospitals perform a traditional governmental role and serve the general public, just as do public facilities owned by governments. Says Congress should evaluate this proposal in light of proposed changes in the taxation of charitable contributions and in Federal credit enhancement programs and reimbursement policies.

Jack W. Owen, Executive Vice President, American Hospital Association

Tax-exempt bonds for nonprofit hospitals.—Says 1-percent rule would seriously jeopardize access to capital markets for many nonprofit hospitals. Suggests it would threaten the existence of hospitals that have substantial commitments to serve the poor and that already are financially vulnerable.

Barry Brooks, Vice President of Finance, Bethesda Hospital, on Behalf of the National Council of Community Hospitals

Tax-exempt bonds for nonprofit hospitals.—Asserts not-for-profit hospitals need the ability to raise capital through tax-exempt bonds. Says the proposal would reduce the amount of indigent or charity care, shift higher capital costs to paying patients, and erode the existing investment in the facilities of nonprofit hospitals.

Richard Cheshire, President, University of Tampa, on Behalf of the National Association of Independent Colleges and Universities

Tax-exempt bonds.—Believes the proposal to allow tax exemption for governmental activities, while denying it to a tax-exempt entity that serves identical purposes, is arbitrary and misdirected. Also says that arbitrage and advance refunding provide a means for investment flexibility that keeps borrowing costs in line with the current value of money.

Stephen Horn, President, California State University at Long Beach, on Behalf of the American Association of State Colleges and Universities

State-local tax deductibility.—Says deductibility helps foster a diverse system of higher education. Says that any negative impact on State revenues and spending will have an adverse impact on State higher education spending. Maintains eliminating deductibility is bad public policy.

Jonathan T. Howe, Second Vice President, National School Boards Association

State-local tax deductibility.—Believes the purpose of singling out this deduction is clearly for a reason other than the one the public has been led to believe. Says eliminating deductibility is unresponsive to the public's demand for tax simplification and reform.

Scott I. Cowan, Chairman, Board of County Commissioners, Broward County, Florida

Tax-exempt bonds, ACRS, and ITC.—Says must have tax-exempt bonds, accelerated depreciation, and ITC to finance solid waste disposal services. Urges the committee to acknowledge the public-purpose nature of resource recovery facilities.

Alfred DelBello, President and Chief Executive Officer, Signal Environmental Systems, Inc., on Behalf of the National Solid Waste Management Association, Institute on Resource Recovery

Tax-exempt bonds, ACRS, and ITC.—Says these provisions permit private companies to provide essential waste disposal services at an acceptable cost to the general public. Proposes continued tax-exemption for “privatized” projects, 5-year phaseout of ITC, and structure CCRS to avoid discrimination against solid waste disposal, sewage, and water treatment facilities.

July 19—Impact on Insurance Companies

William J. Anderson, Director, General Government Division, U.S. General Accounting Office

Qualified reserve account; other property/casualty proposals.—Supplies financial data concerning the property/casualty industry. Makes three recommendations: (1) the existing rule that allows estimated future settlement costs (i.e., loss reserves) to be fully deducted on a current-year basis should be changed so as to require that such estimates be discounted to take the time value of money into account; (2) the existing rule that allows acquisition expenses (i.e., expenses incurred in connection with the sale and renewal of policies) to be deducted on a current-year basis should be changed so as to require an allocation of such expenses over the lives of the policies involved; and (3) the existing special preference for mutual property/casualty companies that defers tax liability with respect to so-called protection against loss accounts (intended to protect against catastrophic losses) should not be retained in its present form.

Richard S. Schweiker, President, American Council of Life Insurance; Edward E. Phillips, Chairman, American Council of Life Insurance and Chairman of the Board and CEO, New England Mutual Life Insurance Co.; and Ian M. Rolland, Immediate Past Chairman, American Council of Life Insurance and CEO, Lincoln National Life Insurance Co.

Inside buildup.—Vigorously opposes the President's recommendations that inside buildup (i.e., increases in cash value) under permanent life insurance policies should be taxed as the income of policyholders on a current basis (i.e., without deferral until actually received). Makes 12 distinct arguments and factual observations in support of its position. Also strongly opposes the President's recommendations to tax annual increases in the cash value of deferred annuities; to curtail the deductibility of interest paid on policy loans; to raise the tax burden of all life insurance companies by further curtailing the deductibility of net increases in reserves (liabilities), including through the imposition of a required method of accounting in the case of accident and health policies (i.e., the qualified reserve account, or QRA, method); to raise the tax burden of many life insurance companies by repealing the just recently enacted special life insurance company deduction, and to raise the tax burden of some life insurance companies by entirely repealing the recently amended deduction allowed in the case of small life insurance companies.

F. Charles McMains, Jr., Vice Chairman and General Counsel, Union National Life Insurance Co., Representing the Life Insurers Conference, the National Association of Life Insurance Companies, and the National Insurance Association

Inside buildup; other life insurance proposals.—Asserts that the President's proposals to tax inside buildup under permanent life insurance and annuity contracts and to limit the deduction for net increases in reserves "would wreak havoc on our member companies." Opposes the recommended repeal of the special life insurance company deduction on the ground that the conditions which motivated its enactment still exist. Vigorously opposes the recommended repeal of the small life insurance company deduction on the ground that such a repeal, even after proposed reductions in general corporate tax rates, would more than double the effective tax rate for a typical small life insurance company and would cripple the ability of such companies to compete with the industry giants.

Robert A. Beck, Chairman, Prudential Insurance Company of America

Inside buildup.—Especially opposes the recommended tax on inside buildup and the proposed new restrictions on the deductibility of net increases in life insurance reserves.

Peter Lardner, Chairman, American Insurance Association

Qualified reserve account (QRA) proposal.—Characterizes the President's proposals relating to property/casualty insurers as devastating. Vigorously opposes the recommended QRA method for deducting incurred losses on the ground that the QRA method would impose cash accounting on the industry and would thus result in the mismatching of revenues and expenses. Likewise opposes the GAO alternative proposal. Notes predictions by others (Best's) that either proposal would generate sizeable premium increases (e.g., a predicted 32-percent increase for medical malpractice insurance). Asserts as well that capacity (i.e., the financial ability of insurers to provide insurance coverage—as measured by aggregate industry-wide surplus) would shrink. Also opposes the recommended repeal of recent tax changes favoring so-called structured settlement annuities (i.e., annuities paying damage awards to accident victims over time rather than in a single lump sum).

Frederick J. England, Jr., President, Independent Insurance Agents of America, Inc.

QRA proposal.—Generally opposes all of the President's insurance proposals but predominantly focuses opposition on the recommended QRA method of deducting loss reserves. From the perspective of sellers of insurance, asserts the recommendation would have adverse effects on insurance consumers: premiums would increase sharply while at the same time the availability of insurance (i.e., the industry's "capacity") would drop significantly because of aggravated surplus shortages. Also expresses concern regarding effects on foreign competition (particularly by West German and Japanese reinsurers).

Bradford W. Mitchell, Chairman, National Association of Independent Insurers

Other property/casualty proposals.—Opposes any method of discounting property/casualty loss reserves on the ground that any such method imposes a tax on investment income before that income is actually received. Opposes the QRA method, in particular, because it would allow only a part of loss reserves to be deducted and would thus reflect an over-inclusive measure of economic income. Also opposes the recommended limitation on the deductibility of policyholder dividends (i.e., premium rebates) by mutual companies, as distinguished from stockholder-owned, property-casualty companies, on the ground that they demonstrably are not vehicles for distributing earnings on ownership equity. Likewise opposes repeal of the special deduction allowed mutual companies for additions to their protection against loss (PAL) accounts. Finally, opposes recommended repeal of various provisions beneficial to small mutual property/casualty companies.

Franklin W. Nutter, President, Alliance of American Insurers

QRA; other property/casualty proposals.—Characterizes the President's proposals for the property/casualty industry as potentially catastrophic. Specifically opposes the QRA method of treating loss revenues on a variety of grounds, including that it is a technically-flawed concept, it would greatly increase insurance costs, and it would reduce industry capacity. Also opposes GAO's recommended discounting method; the President's recommended restriction on the deductibility of mutual property/casualty companies' policyholder dividends; the recommended repeal of the deduction for additions to mutuals' so-called protection against loss (PAL) accounts and of various provisions which benefit small mutuals; GAO's recommendation to require amortization of the deduction for policy acquisition expenses; and the President's proposal to tax workers' compensation benefits.

James L. Osborne, Oregon Mutual Insurance Co., Representing the National Association of Mutual Insurance Companies

PAL accounts; other property/casualty proposals.—Primarily focuses on, and opposes, the recommended repeals of the deduction for additions to mutuals' so-called PAL accounts and the recommended repeal of various provisions of particular benefit to small mutuals. However, also opposes the recommended QRA method of treating loss reserves and the recommended restrictions on the deductibility of mutuals' policyholder dividends.

Andre Maisonpierre, President, Reinsurance Association of America

All property/casualty proposals.—[Note: Property/casualty reinsurers are regulated by the States and taxed at the federal level in the same manner as property/casualty primary insurers are regulated and taxed.] Opposes all sections of the proposal which deal with property and casualty insurance. Focuses comments on opposition to the proposals to change the treatment loss reserves (i.e., the QRA proposal). Cites various behavioral effects of enacting the QRA proposal, including a predicted major shift of insurance sur-

plus offshore, and asserts that there would be a consequent profound impact on the U.S. balance of payments (specifically estimating a \$9.8 billion addition to the account's deficit).

William G. Bailey, President, National Association of Professional Insurance Agents

QRA proposal.—Opposes all of the property/casualty recommendations but asserts that the QRA method of discounting loss reserves is perceived by the P&C insurance industry as being the most harmful provision in the administration's P&C tax package.

Robert W. Pike, Vice President, Allstate Insurance Co.

QRA proposal.—Opposes all of the insurance proposals. However, concentrates opposition on the QRA method of loss reserving and also on the proposals affecting life insurance.

John H. Bretherick, President, Continental Corp., and Dean O'Hare, Executive Vice President, Chubb Corp.

Consolidated returns.—Recommends repeal of existing provisions of the Internal Revenue Code which permit property/casualty insurers to be included in consolidated returns with nonproperty/casualty companies.

Roger Joslin, Vice President, State Farm Mutual Automobile Insurance Co.

All property/casualty proposals.—Characterizes the QRA proposal as completely unsound from every relevant viewpoint. Concedes that the PAL account could, and perhaps should, be more appropriately limited. Expresses strong opposition to the proposed restriction on the deductibility of mutual property/casualty companies' policyholder dividends.

Bruce W. Foudree, President, National Association of Insurance Commissioners

Life insurance reserves; QRA proposal.—Asserts that the proposed restriction on the deductibility of net increases in life insurance reserves and the proposed QRA method of loss reserving for property/casualty insurers would both act as strong disincentives for insurers to adequately reserve for losses.

Henry S. Romaine, President, MONY Financial Services

Inside buildup.—Strongly opposes the recommendations to tax inside buildup under permanent life insurance policies and also the recommendation to tax employer contributions to health insurance plans.

Charles M. Barrett, Chairman, Western & Southern Life Insurance Co.

Inside buildup; other life insurance proposals.—Opposes the recommendation to tax inside buildup. Also opposes the recommended restriction on the deductibility of additions to life insurance reserves. Finally, opposes the recommended new deduction for all corporations for a portion of dividends paid to stockholders, based on the assertion that it could further distort the segment balance

between stock life insurance companies and mutual life insurance companies (i.e., the intraindustry allocation of the tax burden on life insurers).

Thomas R. Anderson, Chief Executive Officer, Kemper Investors Life Insurance Co., Representing Committee of Annuity Insurers

Inside buildup.—Focuses opposition on the proposed tax on inside buildup under deferred annuity contracts.

James A. Deer, Vice President, Anchor National Life Insurance Co.

Inside buildup.—Opposes the President's proposal to tax inside buildup under nonqualified deferred annuities and cash value life insurance.

Michael C. Keenan, President, and Jack E. Bobo, Executive Vice President, National Association of Life Underwriters

Inside buildup; fringe benefits; retirement programs.—Opposes the President's recommendation to tax inside buildup and also opposes various other proposals, including the recommended limitation on the deductibility of interest on consumer loans (including loans taken out under life insurance policies), the proposed tax on employer-paid health insurance coverage; and the proposed limit on contributions to so-called sec. 401(k) plans (i.e., cash or deferred annuity plans).

David J. Downey, President, Association For Advanced Life Underwriting

Inside buildup; other life insurance proposals.—Opposes limiting the deductibility of interest on consumer loans, the proposed tax on inside buildup, and the restrictions on various insurance-related fringe benefits.

Edwin M. Stanley, Representing the Associated Life Insurance Group Policyholder Advisory Committee

Inside buildup.—Opposes the President's recommendation to tax inside buildup and the proposed limit on the deductibility of interest paid on policyholder loans.

W.H. "Skip" Cox, Shreveport, LA

Inside buildup.—Opposes recommended tax on inside buildup.

John R. Dobbs, Fargo, ND

Inside buildup.—Opposes recommended tax on inside buildup.

**July 22, 1985—Individual Minimum Tax Proposals and Impact of
Tax Reform on Mining and Timber**

Hon. Charles E. Bennett, Member of Congress (Florida)

Minimum taxes.—Argues primary goal of tax reform should be restoration of fairness in the Tax Code. States 1981 tax cuts were radically slanted toward the rich and that President's reform proposal would also reward the rich. Recommends a revamped minimum tax on all income to ensure everyone pays their fair share of taxes. Proposes, in H.R. 18, that a 10 percent minimum tax on net economic income in excess of fixed exemptions be instituted for both corporations and individuals, with net economic income defined as all income received in taxable period reduced only by expenses incurred in producing such income and allowances for decrease in value of capital goods. Asserts that H.R. 18 will restore fairness to tax system.

***Lawrence B. Lindsey, Faculty Research Fellow, National Bureau of
Economic Research, and Assistant Professor of Economics,
Harvard University***

Charitable contributions.—Argues that, although President's tax reform proposal would impose fairness and efficiency, it would also produce a significant reduction in charitable contributions. Cites numerous academic articles which show that when the after-tax cost of charitable contributions increases, the level of charitable contributions declines. States President's reform proposal will reduce level of charitable contributions because of reduction in marginal tax rates, reduction in number of itemizers and the repeal of charitable deduction for nonitemizers. Maintains that President's proposal to include the appreciated portion of gifts to charitable institutions as a tax preference for the minimum tax would be harmful to charitable giving and is unnecessary.

***Edward H. Jennings, President, Ohio State University, on behalf of
the American Council on Education***

Charitable contributions.—States that reductions in marginal tax rates will reduce level of charitable contributions. Does not, however, oppose the proposals to reduce marginal tax rates. Opposes the President's proposal to include as a tax preference for the minimum tax the unrealized appreciation on property given as charitable contributions. Advocates the continuation of the deduction for charitable contributions by nonitemizers. Objects to the President's proposal to tax scholarship and fellowship income in excess of tuition costs.

Mark E. Notestino, Personnel Director, N-M Partnership

Depreciation of residential rental properties.—Supports proposal to lengthen depreciation schedules for residential income property. States investment decisions should be based on economic considerations, not tax considerations. Argues that current Tax Code distorts investment decisions in residential rental properties and elements of the code can be used to create paper losses. States that current Tax Code should be modified to bring depreciation allowances for rental property more in line with economic depreciation.

Richard E. Schmalbeck, Professor of Law, Duke University

Income averaging.—Supports the effort to repeal income averaging. States President's rationale for repeal is based on reduced need for income averaging under the new flatter tax rate schedule and on shortcomings in current averaging mechanism. Argues that new rate structure would not necessarily eliminate need for income averaging. Argues that a better mechanism for income averaging could be devised. Argues, however, that, given the costs in terms of both revenue and complexity, it is time to terminate the income averaging experiment.

John C. Houston, Legislative Director, Free the Eagle

Flat taxes.—States that there is general agreement that current Tax Code is too complex, a playground of special interests, and a hinderance to productive economic activity. Argues that flat taxes have become buzz words for tax reform but that most current proposals are not truly flat rate taxes. Proposes optional flat tax to give taxpayers a choice between current tax system and a flat tax. Flat tax would have rates of 14 percent and 10 percent on gross income with no deductions. Suggests the optional approach is a good means of avoiding special interest pressure while still providing for tax reform.

John L. Kelley, Chairman, Tax Committee, American Iron Ore Association

General.—Supports general goals of tax reform, but argues President's proposal would not meet these goals. States that President's proposal would adversely affect both steel and iron ore industries.

Changes in corporate tax structure.—Opposes repeal of percentage depletion and investment tax credit. Opposes substitution of CCRS for ACRS and recapture rules for prior years' ACRS depreciation. Opposes alternative minimum tax and treatment of exploration and development as a preference item for this tax. Opposes recommended disqualification for capital gains treatment of dispositions of iron ore reserves through long-term lease arrangements.

Dennis P. Bedell, Chairman, Tax Committee, American Mining Congress

Effects on mining and mineral exploration.—States that the President's reform proposal would discourage development of an economically sound domestic mining industry. Opposes repeal of percentage depletion allowance. Argues for retention of ACRS and investment tax credit. Opposes alternative minimum taxes in gen-

eral and specifically opposes classification of certain exploration and development costs as a tax preference subject to minimum tax. Opposes repeal of capital gains treatment for certain coal and iron ore royalties.

E.B. Leisenring, Jr., Chairman and Chief Executive Officer, Westmoreland Coal Co., and Member, Board of Directors, National Coal Association

Effects on coal industry.—States that the President's tax reform proposal would adversely affect coal mining. Argues that repeal of percentage depletion, loss of capital gains treatment for coal royalties, loss of accrual of reclamation reserves, and treatment of certain mining costs as preference items for the minimum tax will unfairly penalize the coal industry. Also states that change in tax treatment of black lung benefits and workers compensation will increase cost of coal to consumers.

James H. Davis, Chairman and President, National Council of Coal Lessors, Inc.

Effects on coal lessors.—States that coal lessors would be adversely affected by President's tax reform proposal. Argues against the repeal of capital gains treatment for coal royalties. States that taxing coal royalties as ordinary income is unfair, will cause the price of coal to rise, and is inconsistent with sound public policy.

Clifford Christiansen, President, Iron Ore Lessors Association

Effects on iron ore industry.—Opposes President's proposal to repeal current law capital gains treatment of iron ore royalties. States that repeal of capital treatment of iron ore royalties would adversely affect domestic iron ore and steel industry and weaken their international competitiveness. Indicates current economic situation clearly justifies continued capital gains treatment of iron ore royalties.

George Kelm, President, Sahara Coal Co., on behalf of the Mining and Reclamation Council of America

Effects on coal industry.—States that several provisions of President's tax reform proposal will adversely affect the domestic coal industry. Opposes proposed modifications to depletion allowance for coal, proposed treatment of exploration and development costs, repeal of capital gains treatment of coal royalty income and repeal of statutory provisions for accrual of reclamation reserves. Indicates these changes would reduce growth, employment and number of independent coal operators.

Ruth Caplan, Acting Director, Environmental Action

Energy and environment.—States that current Tax Code is inconsistent with rational energy policy and leads to waste of both economic and natural resources. Indicates that the Treasury tax reform proposal would be a significant improvement and should be considered the benchmark for tax reform. Opposes administration reform proposal because it contains incentives which would lead to an uneconomic exploitation of our natural resources.

Argues that, at a minimum, tax reform should include tax credits for renewable energy and conservation.

Jan Beyea, Senior Staff Scientist, National Audubon Society

Subsidies to the oil industry.—States that tax subsidies to the oil industry are an inefficient means of reducing oil imports and correcting for perceived inequities in taxation of the oil industry. Argues tax subsidies to the oil industry encourage more rapid depletion of oil resources than is economically optimal. Urges that the environmental aspects of tax reform be recognized.

Jack Doyle, Director, Agricultural Resources Project, Environmental Policy Institute

Effects on agriculture.—States that the Tax Code should promote family-owned farms. Supports reform efforts that would eliminate certain deductions for land clearing, leveling, wetlands drainage, and water depletion as well as the repeal of capital gains treatment on sale of certain agricultural lands. Opposes provisions of Tax Code that foster economic concentration in agriculture. Urges that tax reform be used to create incentives for agricultural diversity and economic opportunity.

David Campbell, Resource Economist, Water Resources Program, National Wildlife Federation

Effects on environment.—States that the current Tax Code promotes economic inefficiency which leads to activities harmful to the environment. Supports tax reform that will remove tax breaks, deductions, and loopholes that distort economic decisions. Specifically, supports the proposals to base depreciation on the economic life of assets, to repeal capital gains exclusion, to restrict interest deductions for second homes, and to repeal the investment tax credit.

L. Geoffrey Webb, Washington Director, Friends of the Earth

Effects on environment and coal industry.—Argues that percentage depletion deductions should be repealed for both the coal industry and the oil industry. Supports proposal to repeal deductions for future reclamation costs. Advocates the repeal of expensing for hard mineral exploration and development costs. Urges that the market for energy be allowed to operate freely without the Government subsidizing select activities through the Tax Code.

Robert E. Wolf, on behalf of the Rural Coalition

Effects on timber industry.—States that current tax benefits do not help small landowners engaged in timber production. Argues that the 10 percent investment tax credit and 7-year amortization for reforestation should be repealed as proposed in the President's reform proposal. Indicates adoption of President's proposal would have no effect on small landowners of timber.

July 25, 1985—Corporate Minimum Tax Proposals and Impact on Mining and Timber

Ira H. Shapiro, Director of Tax Policy, Coopers & Lybrand

Corporate minimum tax in general.—Argues that a minimum tax is an admission of failure in the design of the tax system as a whole. Maintains that if excessive use of tax preferences is a concern, a better approach would be to limit individual tax preferences. Asserts that a minimum tax should not be used to raise additional tax revenues, and is unlikely to affect the fundamental fairness of the tax system. Argues that, at best, a minimum tax can assure that all profitable firms pay at least some taxes.

Design issues relating to a corporate minimum tax.—Maintains that an alternative minimum tax would achieve the goals of a minimum tax better than an add-on minimum tax. Observes that the President's proposal is for an alternative minimum tax, while current law contains an add-on tax. Questions the merits of including net interest expenses in the base of a minimum tax, as is proposed by the administration. Suggests inclusion of an averaging feature in the minimum tax proposal, which would take into account firms that pay high effective tax rates in some years and low effective tax rates in other years.

Vincent R. Sombrotto, President, National Association of Letter Carriers, and Head, Committee to Restore an Effective Corporate Tax

Corporate minimum tax in general.—Argues that the current corporate income tax is inequitable due to the existence of loopholes. Maintains that taxes should be computed on profits as reported to shareholders; asserts that the tax structure would become more effective and fair if such a change were made.

Anthony Harrigan, President, United States Business and Industrial Council

Corporate tax reform in general.—Maintains that the principal goal of tax policy as an element of economic policy is to encourage authentic and productive capital investment. Argues that tax policy would thereby create jobs and enhance U.S. international competitiveness.

Specific tax reform provisions.—Opposes repeal of the investment tax credit and revision of current depreciation rules. Objects to the proposed minimum corporate tax and the proposed changes in the percentage depletion allowance. Opposes changes in the deductibility of interest, the taxing of health and life insurance benefits, and the proposed recapture rules relating to accelerated depreciation.

George Scalise, Senior Vice President, Chief Administrative Officer and Secretary, Advanced Micro Devices (AMD)

Corporate minimum tax and R&D.—Asserts that high technology companies would be adversely affected by corporate minimum tax proposals that require amortization rather than expensing of R&D costs. Maintains that if income is to be measured accurately, R&D costs should be expensed.

Martin Neil Bailly, Senior Fellow, The Brookings Institution

Corporate minimum tax and R&D.—Argues that a corporation minimum tax should not require the amortization (rather than the expensing) of R&D costs. Maintains that R&D costs should be expensed because firms expense R&D costs for financial reporting purposes. Asserts that expensing therefore creates no discrepancy between income reported to stockholders and taxable income. Holds that amortizing R&D over 5 or more years would not measure income accurately because a high portion of R&D projects fail. Asserts that amortizing R&D costs would impose a tax penalty on firms with growing R&D spending. Maintains that amortizing R&D costs would reduce R&D spending.

Curtis M. Coward, President, AVAair, Inc., an American Eagle, and Vice President, Regional Airline Association

Corporate tax reform and the aviation industry.—Argues that the U.S. aviation industry needs an effective investment incentive program to provide a safe and efficient national air transportation system. Maintains that government regulations has made necessary the purchase of new aircraft. Asserts that without appropriate investment incentives, many of the purchases will not be made. Opposes repeal of the investment tax credit. Supports the proposed capital cost recovery system, but only if its indexing feature is retained. Opposes the proposed recapture rules relating to accelerated depreciation.

Robert D. Dewar, Chairman, Executive and Finance Committees, K Mart Corp., on behalf of the Association of General Merchandise Chains, Inc.

In general.—Supports the administration's tax reform plan. Argues that the plan would simplify the Federal income tax system, reduce its complexity, and provide incentives for economic growth. Maintains that the current tax causes economic distortions that make it difficult for U.S. businesses to compete in the worldwide market. Asserts that the current tax system imposes high effective tax rates on retail firms, and low effective tax rates on other industries. Argues that the administration's proposal would rectify this perceived inequity.

Specific tax reform measures.—Supports the proposed reduction in corporate tax rates as the tax reform plan's most important provision. Supports a graduated rate structure for small corporations, a revised corporate minimum tax, a dividends-paid deduction, repeal of the investment tax credit and the proposed capital cost recovery system of depreciation. Opposes reform proposals relating to the taxation of employer-provided fringe benefits.

Albert F. Duvall, Chairman and Chief Executive Officer, Hammermill Paper Co., and Chairman of the Board, American Paper Institute

Corporate tax reform in general.—Maintains that, in its present form, the administration's tax reform plan would curtail investment by the paper industry, leading to loss of exports and jobs. Expresses concern regarding the recapture rules related to accelerated depreciation, the replacement of the accelerated cost recovery system and investment tax credit with a new system of depreciation, the proposed changes regarding foreign tax credits, the capitalization of timber management expenses, and elimination of the capital gains treatment of timber.

John H. Perry, Jr., Chairman, Americans for the National Dividend Act, Inc.

National Dividend Act.—Argues that Federal budget deficits are the most serious problem facing the United States. Advances a proposal—the National Dividend Act—to eliminate budget deficits.

Describes the proposed National Dividend Act. States that a fund would be created into which revenues from the Federal corporate income tax would be paid. Indicates that each citizen would receive an annual dividend from the fund, but that the amount of such dividends would be reduced by any Federal budget deficit. States that the plan would repeal the personal income tax on corporate dividends.

Ormand J. Wade, President, Illinois Bell Telephone Co.

Corporate tax reform in general.—Supports the administration's proposal to reduce statutory corporate tax rates and the proposed deduction for dividends paid. Characterizes the proposed capital cost recovery system of depreciation as a positive feature of the reform proposal. Argues, however, that depreciation rules for telephone switching equipment should be at least as favorable as those for computers. Expresses concern regarding repeal of the investment tax credit. Opposes the recapture rules related to accelerated depreciation.

John E. Hulse, Vice Chairman and Chief Financial Officer, Pacific Telesis Group, and United States Telephone Association

Corporate tax reform in general.—Asserts that the administration's tax reform plan would penalize regulated public utilities. Argues that the plan would eliminate investment incentives that have benefited the regulated telecommunications industry, its customers, and the economy of California.

Specific reform provisions.—Supports the proposed reduction in corporate tax rates, but argues that regulated utilities will probably be required to pass the consequent savings on to customers. Asserts that regulated utilities will therefore not have savings from rate reductions sufficient to offset the loss of other investment incentives under other parts of the plan. Maintains that the telecommunications industry would be adversely affected by the proposed depreciation recapture rules because of its capital intensity. Opposes repeal of the investment tax credit. Generally favors the pro-

posed capital cost recovery system. States that preservation of tax normalization for regulated public utilities is critical.

James J. Pendergast, Jr., President, San Marcos Telephone Co.

Corporate tax reform in general.—Argues that the administration's tax reform proposal would adversely affect the ability of small telephone companies to attract capital. Opposes repeal of the investment tax credit. Argues that depreciation tax lives for equipment in the telecommunication industry should be shortened. Supports the proposed retention of tax normalization for regulated public utilities. States that continuation of normalization should also include retention of the penalty associated with the use of flowthrough in place of normalization. Opposes the proposed recapture rules associated with accelerated depreciation.

Richard E. Morgan, Staff Economist, Energy Project of Environmental Action Foundation

Tax reform and utilities.—Argues current normalization rules, combined with the investment tax credit, and accelerated depreciation allow utilities to charge customers for Federal taxes the utilities do not pay. Asserts that tax reform should eliminate this practice. Argues that it encourages unwise investment by utilities. States that the administration's plan would continue normalization. Asserts that the proposed capital cost recovery system of depreciation would treat utility equipment more favorably than present depreciation rules. Maintains this would increase the amount of unpaid taxes for which customers are charged.

Michael Foley, Director of Financial Analysis, National Association of Regulatory Utility Commissioners

Corporate tax reform and regulated public utilities.—States that several provisions in the administration's tax reform plan have implications for the regulation of rates charged by public utilities. These provisions include the dividends-paid deduction, the reduction in the statutory corporate tax rate, and the proposed capital recovery system. Notes that some have suggested that tax reform should specify the method by which tax changes are reflected in the rates utilities charge their customers. Advocates, however, that tax reform preserve flexibility in utility accounting policies as they relate to Federal taxes.

James J. O'Connor, Chairman, President, and Chief Executive Officer, Commonwealth Edison Co., on behalf of the Edison Electric Institute

In general.—Asserts that the proposed repeal of the investment tax credit, elimination of tax-exempt financing for private purposes, and the expiration of tax-deferred dividend reinvestment would adversely affect capital formation for utilities. Supports the administration's tax reform plan, however, if it includes the proposed capital recovery system of depreciation, normalization, and if transition rules for repeal of the investment tax credit are included.

George H. Lawrence, President, American Gas Association

Corporate tax reform provisions.—Supports the President's proposal to reduce statutory corporate tax rates. Suggests that the reduction be accompanied by language specifying the method by which the associated tax savings are distributed to utility customers. Supports the proposed capital cost recovery system of depreciation, but only if it is accompanied by mandatory "normalization" of tax reductions attributable to capital cost recovery. Expresses concern over several aspects of the proposed recapture provisions related to accelerated depreciation. Suggests that the proposed minimum tax for corporations include a provision allowing firms to credit the alternative minimum tax against subsequent years' regular tax.

Opposes elimination of the investment tax credit and the credit for producing fuel from nonconventional sources. Opposes repeal of expensing intangible drilling costs. Opposes the proposed repeal of the reserve method of accounting for bad debts. Expresses concern over the proposed changes in the taxation of fringe benefits.

Supports the proposed dividends-paid deduction. Also supports proposed changes in the tax treatment of inventories, but states that the plan should include language specifying the ratemaking treatment of the changes. Argues that the Tax Code's provision for tax-deferred dividend reinvestment plans should not be allowed to expire.

Jules Breslow, Vice President, Taxes, American Natural Resources Co., and Chairman, Tax Committee, Interstate Natural Gas Association of America

Corporate tax reform.—Argues that tax reform should continue the current mandatory normalization of depreciation, and that normalization should be extended to include the proposed corporate rate reduction and dividends-paid deduction. Opposes the repeal of the investment tax credit and alternative energy production credit. Opposes repeal of expensing intangible drilling costs.

Supports the proposed capital cost recovery system of depreciation, but suggests changes relating to the classification of assets and accounting for the time at which an asset is placed in service. Asserts that taxpayers would be required to keep multiple sets of depreciation records under the President's plan, and maintains that such record-keeping requirements would place a burden on taxpayers. States that if the proposed recapture rules relating to depreciation are absolutely necessary, recapture should be spaced over a longer period of time than that which is proposed.

July 26, 1985—Impact of Tax Reform on Financial Institutions

John R. Petty, Chairman, Chief Executive Officer, and Chairman, Executive Committee, Marine Midland Bank, and Member, Government Relations Counsel of American Bankers Association

In general.—Supports the concept of tax reform. Supports the reduction in marginal corporate income tax rates since high rates reduce the incentive to work, save and invest.

Bank taxation.—Maintains that the tax benefit a bank receives from purchasing a tax-exempt bond or doing a finance lease is passed directly to the city or State selling the bond or to the corporate leasee. Asserts that banks pay over a \$2 billion quasi-tax annually because of the reserves they are required to maintain at the Federal Reserve. Argues that effective corporate income tax rate on banks is 43 percent if the preceding elements in current bank taxation are considered.

Loan loss reserve.—Supports the continuation of the reserve method of determining loan loss deductions. Maintains that the current tax treatment does not provide banks with artificially high deductions and that it is used by a majority of other countries. Argues that the President's tax proposal to use a charge-off method for loan losses may put greater pressure on banks to foreclose on borrowers sooner rather than give them a chance to work out their problems, and will result in a mismatching of income and expense.

Deduction for tax-exempt obligations carrying costs.—Opposes the denial of interest deductions allocable to purchase or carrying cost of tax-exempt obligations. Maintains, that banks receive a lower before-tax rate of return on tax-exempt obligations and thus bear an indirect burden attributable to the income tax. Claims that in many communities banks provide the only continuous, reliable source of funding for the local government.

Proposed changes in foreign tax credit provisions.—Opposes the President's proposal to determine tax credits available on foreign income using a country-by-country basis. Claims it would be extremely cumbersome and complex to apply, that it would limit lending to high-tax countries, and that it would likely mean less involvement by U.S. banks in the international financial markets with a corresponding decline in U.S. international competitiveness.

Accrual method accounting.—Argues that requiring banks (and other business taxpayers) to switch from the cash method to the accrual method of accounting does not close loopholes or broaden the tax base.

Corporate minimum tax.—Opposes the concept of a minimum tax since it is unnecessary in a properly designed, economically sound tax system.

Repeal of special net operating loss rules.—Has no objection to the elimination of the special net operating loss rules applicable to financial institutions.

Recapture tax.—Opposes the recapture of excess depreciation, claiming it is a retroactive tax on firms that availed themselves of the provisions of the accelerated cost recovery system.

Individual retirement accounts (IRA's).—Opposes requiring individuals to offset IRA contributions against the new dollar limits on elective contributions that could be made to a 401(k) plan.

Taxation of employee benefits.—Recommends that Congress proceed very slowly in its deliberations on changing the employee benefit rules.

Limit on interest expense deduction.—Questions the wisdom of any limitation on interest deductibility allowed for individual taxpayers.

Interest indexation.—Maintains that it is necessary to apply inflation adjustments to all forms of investment in order to prevent distortions in economic decisionmaking. Argues that taxing the inflation premium on interest income would be unfair.

Joe C. Morris, President, Columbia Savings Association, on behalf of United States League of Savings Institutions

Tax reform.—Supports fairness, simplicity and growth as overall objectives of our tax system. Declares that while tax reform is of critical importance, it must not interfere with ongoing congressional deficit reduction efforts, or aggravate the threat that the deficit poses to our national economic future.

Corporate tax rate.—Supports the administration's recommendation for a 33-percent maximum corporate tax rate. Argues that a reduction in the maximum corporate tax rate will increase taxpayer compliance and stimulate economic growth.

Bad debt reserve.—Opposes the administration's proposal to replace the current bad debt reserve system for thrifts with a specific charge-off method. Maintains that charge-off postpones the tax recognition of any loan loss expense until after this expense has been incurred economically, whereas reserve accounting more accurately measures economic income.

Opposes the administration's efforts to recapture a portion of prior allocation to bad debt reserves of thrifts. Argues that the adverse impact on fragile thrift financial statements will far outweigh the minimal revenue pick-up.

Net operating loss carryback/carryforward.—Favors thrust of administration's proposal to grant financial institutions parity with nonfinancial corporations in the treatment of net operating losses (NOL). However, proposes that separate 10-year carryback be maintained and carryforward be extended to 8 years. Further argues that individual thrifts be given one time option for the NOL treatment available for non-financial corporations. Urges that treatment be extended to existing losses as well.

Accrual accounting.—Argues that thrift institutions should not be subject to the administration's recommendation mandating accrual, rather than cash, accounting for tax purposes. Maintains that thrifts deal with "retail" cash-basis individual taxpayers, thus cash-basis thrifts interact symmetrically with the cash-basis deduc-

tions and deposit-interest recognition on individual taxpayer returns.

Repeal of deduction for State and local income taxes.—Maintains that the proposed repeal of the deduction for State and local income taxes creates a special problem for private-sector depository products in competition with U.S. Treasury issues (where interest remains exempt from State/local taxation) by denying a Federal tax offset for State/local taxes paid by depositors on their interest income.

Reorganization of FSLIC-insured institutions.—Maintains that the administration's recommendation to continue until 1991 the Tax Code provisions regarding reorganizations of financially troubled FSLIC-insured institutions and the treatment of FSLIC assistance is a welcome improvement to the immediate repeal advocated in the Treasury documents of last November.

Deferring tax provisions.—Recommends deferring savings institution corporate tax revisions until Congress sets the framework for the future of specialized thrift institutions in laws governing financial institutions.

Ross B. Kenzie, Chairman of the Board and Chief Executive Officer, Goldome FSB, on behalf of the National Council of Savings Institutions

Financial stability of thrifts.—States that large losses suffered by thrifts in 1981 and 1982 depleted the capital of thrift institutions. Maintains that the rebuilding of capital through the restructuring of assets and liabilities by the thrifts is still in the early stages.

Corporate income tax rate.—Supports the proposed reduction in the maximum corporate tax rate to 33 percent. Argues that the proposed repeal of the special bad debt deduction will increase the effective tax rate, which must be offset by a lower statutory rate to foster recapitalization of the industry.

Bad debt deduction.—Argues that changes in the bad debt deduction should not include the application of a retroactive recapture of existing reserves. Asserts that the proposed recapture of existing reserves would immediately eliminate a substantial portion of the existing net worth of the industry. Argues that Congress should adopt some reasonable method of computing bad debt deductions for all corporations, including thrifts, to provide conformity with accounting and regulatory reporting practices.

Net operating loss carryforwards.—Argues that the transition rules concerning net operating loss carryforwards and carrybacks are inequitable. Proposes that the total NOL carryforward/carryback be extended to 18 years and the carryback shortened (and carryforward lengthened) gradually until treatment is on par with nonfinancial corporations. Further urges that the new NOL rules be extended to cover losses back through 1981.

Tax treatment of the reorganization of thrifts.—Argues that the reorganization rules for thrift institutions should be changed to provide similar treatment for the FDIC-insured thrifts as for FSLIC and State insured thrifts. Maintains that the failure to apply comparable rules puts FDIC-insured thrifts on an unlevel playing field with FSLIC and State institutions.

Accrual accounting for tax purposes.—Asserts that cash basis accounting should continue to be available to thrift institutions. Argues that requiring thrifts to compute income on the accrual basis while their customers compute income on the cash basis creates an unnecessary mismatching of revenue to thrifts in relation to recognition by individuals.

Spousal individual retirement accounts.—Supports the President's proposal to increase the deductible amount of contributions to spousal individual retirement accounts (IRA's) to \$2,000 per year. Argues that this increase in the spousal IRA will raise long-term savings.

Deductibility of interest expense to carry tax-exempt securities.—Urges reconsideration of the proposed repeal of deductions for interest paid on deposits and short-term obligations when these funds are invested in tax-exempt securities. Is concerned about the effect of this proposed repeal on the value of tax-exempt securities currently held.

Treatment of interest expense.—Maintains that the President's proposal to limit the deductibility of interest paid by individuals should be thoroughly reviewed to determine its true economic impact.

Finn M. W. Caspersen, Chairman of the Board, Beneficial Corp.

President's tax reform proposals.—Supports the President's tax reform proposals because it will benefit his customers. States that the President's proposals will also benefit the general economy since individuals will be more willing to spend and invest. Believes that fairness will be achieved by adopting the President's proposals that broaden the tax base, lower tax rates, and eliminate special deductions, special tax credits, and other preferences.

Michael P. Esposito, Jr., Executive Vice President, Chase Manhattan Bank

President's tax proposals.—States that the low "effective tax rate" of many banks only reflects their heavy investment in tax-exempt municipal bonds. Maintains that the principal beneficiary of the tax exemption is the municipal issuer, who pays a lower rate. Argues that a real weakness in the administration's plan is its lack of a decisive stimulus to savings. Asserts that the administration's plan is relatively insensitive to the Nation's need for international competitiveness. Argues that the Nation should not have a tax plan that reduces revenues since the Nation's No. 1 problem is the budget deficit.

Bruce O. Jolly, Jr., Esq., McGlinchey, Stafford, Mintz, Cellini & Lang, Chairman, ad hoc Subcommittee on Credit Union Taxation of the Credit Union Committee of the American Bar Association

Taxation of credit unions.—Describes credit unions as nonprofit, democratic, mutual institutions that serve only specific groups in a field of membership with statutorily limited authority to raise external capital, invest resources or lend funds. Argues that credit unions are structurally different from other financial institutions. Foresees three major effects if Congress elects to tax credit unions.

Predicts substantial pressure to change the very structure that distinguishes credit unions from other institutions. Maintains that credit unions will be forced to raise loan interest rates, service charges or both. Asserts that credit unions will need to seek external sources of capital to maintain financial stability.

Joe Perkowski, President, Minneapolis Federal Employees Credit Union, on behalf of the Credit Union National Association, Inc.

Taxation of credit unions.—Argues that the brunt of proposed taxation of retained earnings of credit unions would likely be borne by lower-income members of credit unions. Asserts that credit unions provide an abundance of social benefits far in excess of the lost tax revenue. Maintains that credit unions qualify for their tax-exempt status based on being organized and operated on a nonprofit basis and that credit unions do not have an unfair advantage over other financial institutions. Argues that taxation would cause numerous disruptions in credit union activities. Asserts that taxation will generate pressure to eliminate free and unprofitable services provided by credit unions, to seek authority to establish traditional business relationships with the general public, and to increase yield by accepting more risk. Contends that taxation will also result in the loss of volunteers and the volunteer spirit.

Robert A. Hess, General Manager, Wright Patman Congressional Federal Credit Union, President, National Association of Federal Credit Unions

Taxation of credit unions.—Defines credit unions as member-owned cooperatives, organized to promote thrift and to create a source of credit for a defined group of individuals who are linked by a common bond. Maintains that credit unions do not have a competitive edge in the financial marketplace over banks and savings and loans. Claims that since the President's tax proposals would exempt small credit unions from taxation, small credit unions would have a disincentive to grow by providing necessary services to their members. Argues that if the credit union tax exemption is repealed, the unique volunteer features of credit unions will be seriously threatened if not immediately altered, their safety and soundness will be jeopardized, and their role as providers of sound financial alternatives to the for-profit banking system will be seriously impaired.

Alan Fox, Legislative Representative, Consumer Federation of America

Taxation of credit unions.—Argues that credit unions differ from other financial institutions because they operate on a nonprofit basis and are democratically controlled by their members. Contends that the taxation of retained earnings of credit unions will result in credit unions curtailing many benefits to members, such as interest rates on loans, low or no fees on deposit accounts, free financial counseling, and higher interest rates on savings. Maintains that taxation has serious implications concerning the safety and soundness of credit unions.

W. Dean Cannon, President, California League of Savings Institutions

Savings institutions.—Asserts that Congress established a special tax regime for savings institutions that concentrate investments in residential mortgage loans in recognition of their unique role in long-term finance and the risk to which they are exposed from fluctuating interest rates (due to lending long on residential mortgages and borrowing short on demand-type deposits). Claims the treatment of bad debt reserves for savings and loans represent the historic special tax regime for those institutions established in exchange for a commitment to residential lending. Maintains that the administration's proposal to not permit existing savings institution losses to be eligible for the new carryover period is directly contrary to the treatment of existing losses accorded other corporate taxpayers under the Economic Recovery Tax Act of 1981. Asserts that the proposal to deny deductions for State and local taxes would raise savings institutions cost of competing for depositors' funds with U.S. Government obligations, which are exempt from State and local taxes. Argues that the tax proposals are fundamentally inequitable in the broad sense that an industry required to commit itself to specific long-term housing finance should not be taxed like any other industry free to make rational market choices. Asserts that the savings institutions are locked into long-term portfolios which they cannot transform, without great difficulty, into other investments.

Larry L. Kemnitz, CPA, Tax Partner, Eide Helmeke & Co.

Rural banks.—Asserts that President Reagan's proposals to require that bad debt losses of financial institutions be deducted only as they occur along with the recapture existing loan loss reserves will have a significant adverse impact on small rural banks. Asserts that the President's proposal that financial institutions lose 100 percent of their interest deduction attributable to carrying tax-exempt bonds will have a significantly negative impact on small rural banks. Maintains that the President's tax proposal that prohibits certain taxpayers from using the cash method of accounting will add significant additional complexity to the existing tax rules. Recommends that the investment tax credit not be eliminated but the rate for the investment tax credit be reduced.

July 29, 1985—Tax Accounting Issues, Including Completed Contract Method; Builder Bonds; Construction Period Interest

David A. Berenson, Partner, Washington Tax Services, Ernst & Whinney

Expresses concern that public perception is important to the success of any tax reform proposal. Points out that "reform acts" enacted in the past have not been perceived by the average taxpayer as a major improvement in the tax system.

Retroactive and transitional tax policy issues.—Expresses concern that several of the administration's proposals would have substantial retroactive effect, for example: (1) rehabilitation expenditures contracted for prior to 1986 but incurred after 1985; (2) preexisting irrevocable Clifford trusts established by parents; (3) property acquired or under construction but not placed in service prior to 1986; (4) excess depreciation taken between January 1, 1980, and July 1, 1986; (5) interest expense on indebtedness incurred prior to 1986; and (6) the tax treatment of retirement savings.

Indexation and tax policy issues.—Expresses concern regarding the administration's proposal to index for inflation: (1) capital gains; (2) depreciation; (3) FIFO inventory; (4) certain retirement plan limits; and (5) the earned income tax audit. Points out that current law already adjusts tax bracket amount, and the personal exemption amount for inflation. Believes that extending indexing beyond its current application would only add complexity to the system. Takes the position that indexing should be extended beyond its current application only when inflation exceeds a predetermined rate.

Measurement of income.—Opposes the proposal to eliminate the reserve method of accounting for bad debts. Opposes the proposal to limit the cash method of accounting as it relates to individuals providing personal services. Supports the proposal for repeal of LIFO conformity requirements, but believes that such a proposal should be coordinated with the Financial Accounting Standards Board and the Securities and Exchange Commission due to the implications for companies which may change inventory accounting methods for financial statement purposes. Opposes the proposal to require capitalization of certain production costs. Believes that the proposed rules would distort the basic distinction between period or product costs and would create an undue administrative burden.

Individuals.—Opposes the proposal to repeal the income tax deduction for State and local taxes. Believes that not allowing the deduction would result in an inherent unfairness because income taxes are as much a cost of earning income as other expenses which would continue to be deductible. Opposes the proposal to restrict the deduction for unreimbursed employee business expenses, miscellaneous itemized deductions, and State and local taxes to the

extent those expenses exceed 1 percent of an individual's adjusted gross income. Believes that the effect would be to improperly tax many individuals on their gross salary or investment income instead of their net earnings.

Business and capital formation.—Opposes the proposal to change the depreciation systems. Believes that if there are certain assets that receive an unwarranted economic advantage under the accelerated cost recovery system, addressing them individually through new classes or extended lives would be preferable to rewriting the entire depreciation system. Opposes the proposal to recapture excess depreciation. Believes that such proposal would result in complexity and inequity which would be inconsistent with the underlying policy of tax reform. Opposes the proposal to limit the income tax deduction for interest. Believes that since the limitation would increase as investment income increases, the limitation would be more burdensome to wage earners than to individuals with established wealth. Expresses concern that the proposal to extend the at-risk rules to real estate could result in extended construction delays or other adverse economic effects on the real estate industry. Believes that if the proposal is enacted, appropriated transitional rules should be considered. Believes that the proposal to allow a 10-percent deduction for corporate dividends paid should be revised to increase the deduction to 50 percent of dividends paid. Suggests that, as an alternative, the Congress should consider the deemed capital transaction approach, which would treat all corporate distributions as long-term capital gains without offset by capital losses, and would subject all corporate distributions to an expanded alternative minimum tax.

Retirement savings.—Supports the proposal to increase the maximum allowable contribution to a spousal individual retirement account to \$2,000. Opposes proposals to limit an employee's elective contribution to a cash or deferred arrangement (CODA) and to modify the actual deferred percentage test for CODAs. Opposes the proposal to disallow in-service withdrawals from a CODA on account of hardship. Opposes the proposal to impose a 20-percent tax on would be sufficient and that exceptions should be made in hardship cases. Opposes the proposal to modify distribution rules and voting of unallocated securities in the case of an employee stock ownership plan.

Modification of property and casualty insurance company reserves.—Opposes the proposal to revise the methods by which additions to the reserves of property and casualty insurance companies are computed. Believes that the proposal would result in additional complexity and would have the secondary effect of increased premiums and fewer investments in municipal obligations by property and casualty companies.

International taxation.—Opposes the proposed changes relating to the foreign tax audit limitation, the source of income rules, the allocation of research and development expenses, and the treatment of companies operating in U.S. possessions. Believes that such changes would substantially increase the cost of doing business abroad and would put U.S. companies at a competitive disadvantage to multinationals from other nations not subject to such provisions.

Leslie J. Schneider, Tax Counsel, Committee for Reasonable Inventory Accounting Rules

Opposes the administration's proposal to revise inventory accounting rules. Believes that the proposals would be both complex and unfair, and would not eliminate a subsidy nor eliminate distortions in the proper reflection of income. Urges the committee to reject the proposals.

States that if the committee does not reject the inventory cost accounting proposals, technical transition relief must be provided for last-in-first-out (LIFO) taxpayers.

Jon Grove, Chairman of the Board, American Southwest Financial Corp., and Executive Vice President, Estes Homes, on behalf of Housing America Foundation, Committee to Preserve Homeowner Bonds

Opposes the administration's proposal regarding the recognition of gain on pledges of installment obligations. Believes that such proposal would have a detrimental effect on the financing mechanism of pledging home mortgages as collateral for homeowner bond. Points out various benefits generated by the homeowner bond program. Urges the committee to maintain present tax law and not to adopt the proposed change in the tax treatment of installment sales.

John S. Nolan, Esq., Miller & Chevalier, Ad Hoc Group on Cash Method of Accounting for Service Organizations

Opposes the administration's proposal to require personal service business, e.g. accountants, architects, engineers, and lawyers, to use the accrual method of accounting rather than the cash method of accounting. Believes that such a proposal cannot be justified by any standard usually applicable in structuring a major change in the Tax Code: (1) it would not clearly reflect income; (2) it would be inconsistent with other comparable provisions; (3) it would not be designed to correct an abuse; and (4) it would not be sound tax policy. Urges the Congress to reject the proposal.

Tony Ponticelli, Executive Secretary, National Construction Industry Council

States that the council is not yet prepared to adopt a position on the administration's tax proposal or any other tax plan, but has been able to identify issues which would have a measureable impact on the method of doing business in the construction industry.

Completed contract method of accounting.—States that the current proposals to revise the completed contract method of accounting are almost identical to those made in 1982. Believes that the resubmission of such proposal as part of a new theory for other types to taxpayers is unjustified.

Energy tax credits.—Believes that energy tax credits have operated to ensure a viable construction industry, especially in the industrial, commercial, and residential markets. Believes that energy tax credits should be retained and opposes proposals to eliminate the energy tax credits.

Interest on tax-exempt bonds.—Believes that the proposed elimination of the tax-exempt status of interest on certain bonds issued by State and local governments would be a potentially serious threat to the construction industry as well as current economic recovery.

Rehabilitation and preservation incentives.—States that the preservation industry is an important part of the economy and the construction industry with approximately \$21 billion per year reinvested in privately owned buildings which are more than 50 years old and at least \$5.1 billion in commercial rehabilitation annually. Believes that any changes in such incentives should be based on their own merits rather than as a consequence of tax reforms based on other reasons.

Real estate investments.—Believes that the administration's proposal would affect property values, financing opportunities, and investment opportunities, and would have a direct and probably negative impact on the construction industry. Opposes the proposal to revise the mortgage interest deduction and the deduction for State and local property taxes. Points out the proposal to eliminate all tax-exempt financing for first-time home buyers would affect 200,000 mortgages per year, and the elimination of such tax-exempt financing for modest-rent apartments could affect \$6 to \$8 billion worth of construction.

Taxation of fringe benefits.—Opposes the proposal to impose a limit on the current exclusion of employer-provided health care. Points out that the construction industry is a labor-intensive industry and, thus, is more vulnerable to changes in the tax treatment of employer-provided benefits than many other business sectors.

International tax issues.—Points out that while construction in the United States has declined on average by 3.4 percent since 1973 in real terms, construction in foreign markets has expanded. Believes that the construction industry's contribution to the U.S. balance of trade is significant with over \$6 billion in domestic revenues generated in 1983 as a result of construction industry exports, accounting for approximately 261,000 jobs and \$1.13 billion in total corporate and personal income taxes.

Foreign tax credits.—Opposes the administration's proposal to impose a per country limit on the foreign tax credit. Points out that due to the size of many international projects and the investment required, it is not unusual for construction firms to be heavily committed in only a few countries at any one time. Believes that a per country limit would impose a financial burden for those countries at a time when it is becoming more difficult to compete on the basis of project cost.

Technical assistance tax.—Opposes the double taxation of technical assistance services performed by U.S. contractors on overseas projects. Supported past proposals which would have allowed an income tax deduction for foreign taxes on such services. Points out that no provisions dealing with the taxation of technical assistance services were included in the administration's proposal.

ACRS/ITC.—Believes that the capital cost recovery system (CCRS) does not meet the capital formation policy which led to the enactment of the present investment tax audit and ACRS. Believes

that changes in the present system would have long-range effects which would be difficult to assess and could not be easily reversed.

Ray J. Groves, Chairman of the Board, American Institute of Certified Public Accountants

Financial statement accounting and tax accounting.—Points out that the administration's proposals imply that there should be a correlation between financial statement accounting and tax accounting. States that the purposes of accounting principles used to prepare financial statements and the purposes of tax accounting are different. Believes that traditional tax policy goals should be examined instead of focusing on financial accounting principles. Indicates, for example, that tax policy as it relates to individuals has reflected a concern for the ability to pay tax liabilities, however, the proposal limiting the cash method of accounting would ignore the traditional ability-to-pay concept. Believes that evaluating the tax accounting proposals from the standpoint of conformity with financial statement reporting principles is inappropriate because the goals of the two systems are different. Urges the Congress to consider changes in accounting methods in light of tax policy goals which have been developed in the past.

Richard G. Mulligan, Chairman, Committee on Government Business, Financial Executives Institute

Completed contract method.—Maintains that certain sections of the administration's tax reform proposal relating to the use of the completed contract method impose new restrictions which discriminate against long term contractors. Points out under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) new regulations were mandated which reduced the benefits of the completed contract method, particularly in the area of the current deductibility of period costs, completion requirements, and the severing and aggregating of contracts. States that as a result of such new regulations, companies that had a low effective tax rate due to the use of the completed contract method in the past are now paying substantial Federal income taxes and will continue to do so in the future. Believes that the retention of the completed contract method, without further modifications, is sound tax policy. Opposes any of the current proposals calling for the elimination of completed contract method of accounting, especially those that discriminate against the defense industry.

W. Grant Gregory, Chairman of the Board, Touche Ross & Co.

Cash method of accounting.—Expresses opposition to the administration's proposal which would disallow the cash method of accounting for most personal service businesses. States that such proposal would have a direct impact on the economics of firms in the accounting, legal, architectural, engineering, and other professions.

Financial accounting.—States that the proposal implies that economic results are properly measured under financial accounting utilizing generally accepted accounting principles. Believes that such accounting principles do not fit the economics of the service sector, many of whose businesses operate in partnership form, and would not result in a matching of income with the related expense.

Joseph W. Blackburn, Sirote, Permutt, Friend, Friedman, Held & Apolinsky, P.C. of Counsel, Palmer Professor of Taxation, Samford University Cumberland School of Law, on behalf of Fairness in Cash Method Group

Requiring all businesses to convert from cash to accrual accounting, if a business' gross receipts exceed \$5 million.—Opposes this proposal for a number of reasons, including the following: (1) the cash method reflects the proper economic basis for tax purposes; (2) the proposal could require taxpayers to borrow to pay taxes on artificial income; (3) the proposal discriminates arbitrarily against service-oriented and certain other businesses; (4) the \$5 million standard is arbitrary and discriminatory; (5) conversion to accrual will be costly and complex; (6) affected businesses will be forced to harden credit and collection policies; (7) for professionals, accounts receivable will be included as income, but deductions will be denied upon nonpayment due to ethical considerations; (8) there is no rationale for the proposal, except to create a small one-time injection of revenue arising from artificial acceleration and taxation of accounts receivable; (9) neither the Kemp-Kasten nor the Bradley-Gephardt proposals contain similar provisions; and (10) taxpayers should not be required to pay taxes on money they have never received.

N. Jerold Cohen, Sutherland, Asbill & Brennan, Service Industries' Coalition To Preserve Cash Method Accounting

Requiring all businesses to convert from cash to accrual accounting, if a business' gross receipts exceed \$5 million.—Opposes this proposal because: (1) it would discriminate based on size and discriminate against the service industry as compared to manufacturers and sellers of goods; (2) it will retard growth by encouraging taxpayers to avoid the \$5 million "trigger"; (3) it will replace a simple accounting method, long accepted, with a complex method which could foster disrespect for the tax system; and (4) the proposed "transition" rule is in reality a targeted 6-year excise tax imposed on the assets of enterprises required to make the change, regardless of their current taxable income.

Gerald J. Beiser, Senior Vice President, Champion International Corp.

Accounting changes.—Opposes the proposed accounting changes. Points out that reforestation would be damaged because no current deduction would be allowed for the costs of timber management, taxes, and interest. No tax reduction will occur until the trees are harvested. Feels that the accounting changes proposed by the administration will devastate both large and small timber owners. In addition: (1) the proposal is inconsistent with generally accepted accounting standards; (2) timber owners will be subject to rules different from those of other taxpayers; and (3) the proposal is extremely complex.

Gerald Kriegel, Associated Builders & Contractors, Inc.

Graduated corporate tax rate.—Favors retention of the graduated rates because elimination would hurt many small construction

businesses which are a very important part of the construction industry. Points out that 66 percent of new jobs have been created by small businesses.

Capital gains.—Favors capital gains treatment for investors because elimination would dampen the willingness of investors to make risky venture capital investments.

Corporate and individual tax rate.—Favors proposed top corporate rate reduction and the broadening of the rates for individuals. Concerned, however, about the reduction of tax rates at the expense of capital recovery provisions. These changes together could increase corporate taxes by \$118.4 billion and reduce individual taxes by \$131.8 billion from 1986 through 1990. This is a great disparity.

Depreciation.—Favors the administration's 1981 commitment to a depreciation system that provides substantially accelerated deductions over relatively short recovery periods. Feels that the proposed capital cost recovery system is not as accelerated as the present accelerated cost recovery system. This hurts the construction industry because it needs an up-front cash flow. Also CCRS may lead to higher interest rates, lesser growth in the gross national product, and higher deficits.

Investment tax credit.—Opposes repealing the ITC. Cites study completed by Arthur Andersen & Co. that states that if the CCRS proposed by the administration were adopted and the ITC dropped, the United States would rank last in the industrial free world in cumulative cost recovery deduction allowed for most equipment through each of the first 3 tax years that the equipment is in service.

Recapture.—Opposes the administration's proposed recapture provision which would include in income over a 3-year period 40 percent of the "excess depreciation" taken between January 1, 1980, and July 1, 1986, because of its impact on capital-intensive corporations. Points out that retroactive taxes of this type can cause taxpayers to lose faith in government and that this type of retroactive tax may be unconstitutional.

Completed contract method of accounting.—Opposes the administration's proposal to eliminate the completed contract method. Points out that the percentage of completion method is not appropriate for the construction industry because early revenues are not proportional to offsetting expenses, and it is difficult to estimate profit until a project is completed. Feels that the elimination of the completed contract method would have a devastating effect on the construction industry.

Cash method of accounting.—Believes that by prohibiting the use of this method of accounting for taxpayers with more than \$5 million in gross receipts, the President's proposal will most heavily burden small business.

Deductibility of State and local taxes.—Opposes the elimination of State and local taxes as deductions because States and localities will have to cut programs in lieu of increasing tax burdens which will mean a decline in construction activity.

Rehabilitation tax credit.—Favors retention of the rehabilitation tax credit because it is an effective mechanism for community revi-

talization and economic development, helping to create new housing and jobs.

Targeted jobs credit.—Favors retention of this credit because it prompts employers to consider employing those in the target groups, which helps those hired to build work histories.

Employee benefits.—Believes that incentives for businesses to offer health and insurance benefits to employees reduce the burden on government-provided services. Believes tax-qualified retirement plans should remain tax-qualified because they are an important source of retirement savings to workers and will reduce the burden on the Social Security system.

Taxation of fringe benefits.—Opposes taxing fringe benefits. Points out that these benefits permit employers to provide employees with particular benefits, such as health insurance and training and retraining, which enable workers to be employed, thereby reducing the burden on Federal and State Governments.

Workers compensation.—Opposes taxing workers' compensation benefits. Points out that taxation of such benefits will reduce the adequacy of such benefits—necessitating benefit increases—which will increase employers' costs; which will then be passed on to the consumer. In addition, the Federal Government's cost of providing workers' compensation could be increased to a level that will not be offset by the revenues received from taxing such benefits.

Roland E. Kinser, Secretary, American Subcontractors Association

Completed contract method of accounting.—States that the elimination of the completed contract method of accounting would result in a sharp reduction in cash flow for many construction companies and, in many cases, threaten their existence.

Investment tax credit and accelerated cost recovery system.—Warns that the proposals for elimination of the investment tax credit and the accelerated cost recovery system threaten the growth experienced by the construction industry since 1981 and could return the industry to a full-scale depression.

Real estate investments.—Cites recent statements of Treasury officials that although the President's proposal is intended to neutralize tax rates on different kinds of investments, effective tax rates on income from real estate investments would be about 24 percent, as compared to 17 or 18 percent for other investment income. Cautions that these more favorable tax rates could cause investors to turn away from real estate investments.

Construction industry subcontracting businesses.—Urges that the Committee on Ways and Means and the Congress be certain of the impact of major tax reform on construction industry subcontracting businesses and the industry as a whole before they make final decisions regarding reform proposals.

Lee K. Schwartz, President, Mound Rose Cornice & Sheet Metal Works, St. Louis, Missouri, on behalf of Sheet Metal and Air Conditioning Contractors' Association, Inc.

The economy.—Declares that the greatest problem for the construction industry is interest rates that are too high, especially in relation to the inflation rate. Calls for a comprehensive approach to reduce the Federal budget deficit as soon as possible.

Taxes and small business.—Notes that the construction industry was adversely affected by a number of cuts in incentives for construction project investment in 1984. Encourages the committee to report out a bill which considers the negative impact of further decreases in such incentives as accelerated cost recovery, leasing incentives, industrial development bond tax treatment, and investment tax credits for rehabilitation, citing the importance of these to small businesses in the construction industry. Expresses disagreement with suggestions to reduce the cost of the current tax reform proposal by raising taxes on construction and business or eliminating investment incentives.

Completed contract accounting.—Strongly opposes the elimination of the completed contract method of accounting. Notes that the construction industries differ from others which have used this method, primarily because the uniqueness of construction projects places specialty contractors at risk until project completion and acceptance.

Energy tax credits.—Supports proposals for extending the energy conservation tax credits beyond their expiration date. Emphasizes the relation of these incentives to energy consumption and imports and thus the balance of trade. States that energy efficiency results in direction of businesses' finances toward productive investments.

Fringe benefits.—Opposes taxation of employee fringe benefits as inequitable and calls upon the Congress to investigate abuses of fringe benefit plans if this is its real concern in considering such proposals. Points out as undesirable effects of benefit taxation that: (1) small firms will be still further inhibited from providing or expanding benefit packages; (2) collective-bargaining agreements, commonly the source of benefit packages, will be subject to greater scrutiny as workers seek to offset income losses and to protect wages and benefits; and (3) costs of tax increase will be passed from labor to small businesses and then to the consumer or, if absorbed by businesses, will reduce activity or profitability.

Rehabilitation-preservation tax credits.—Opposes repeal of the rehabilitation tax credits, citing the role of these in job creation and construction investment. Stresses that rehabilitation and historic preservation projects utilize a large proportion of small construction firms, are highly labor intensive, and reliably generate direct revenues for States and localities.

Conclusion.—Voices concern regarding the impact of modifying or eliminating such investment incentives as depreciation deductions, tax-exempt bonds, investment tax credits, and the deduction for State and local taxes. Concludes that any tax reform proposals which increase the Federal deficit or raise interest rates would appear to have a negative overall impact on the construction industry, which, because of its importance in the domestic economy, significantly affects many related industries.

William Harvey, President, Interstate Mechanical, Inc., Portland, Oregon, and President, National Association of Plumbing-Heating-Cooling Contractors

Expresses general support for the President's tax reform proposal. Describes the construction industry as a crucial component of

the nation's economy and believes that proposals affecting this industry as having a magnified impact on the economy as a whole.

Capital cost recovery system.—Expects that although the proposed capital cost recovery system (CCRS) will decrease the amount of depreciation available to be deducted in each taxable year and thereby increase taxable income, this effect will be moderated by proposed corporate tax rate reductions. Believes, however, that the 28-year period for depreciation of buildings (currently 18 years) is too long and will significantly dampen construction activity. Urges retention of the current 18-year and 15-year (low-income housing) depreciation schedules.

Investment tax credits.—Recognizes that although investment tax credits stimulate investment, they may be more beneficial to successful companies than to those without sufficient revenue to make use of investment incentives. Prefers, pending results of a National Construction Industry Council study, lower corporate tax rates as a stimulus to construction activity.

Completed contract method of accounting.—Opposes the proposal to eliminate the completed contract method (CCM) because of the unique nature of construction. Lists characteristics thought to make the construction industry unique and therefore, even under the President's proposal, qualified for special recognition. Points out that the Congress has recognized, when it modified CCM rules in 1982, that abuses of CCM are found not in the construction industry but among large manufacturing companies using multiyear contracts. Warns that unavailability of this method to construction contractors could result in bankruptcy of many.

Income averaging.—Urges retention of the income averaging provisions (applicable to contractors operating as sole proprietorships or partnerships) as a means of balancing taxation of small contractors experiencing the cyclical nature of construction or newly entering into business.

Industrial development bonds.—Notes the benefits provided by industrial development bonds to communities in developing their infrastructures.

Interest deduction limitations.—States that limitations on the deduction of interest would slow the construction economy, since limited partnerships investing in construction would lose a tax advantage. Believes that investment in second homes, however, would not be affected significantly by such limitations.

Rapid amortization for low-income housing.—Believes that, contrary to the analysis put forth in the President's proposal, rapid (5-year) amortization for rehabilitation of low-income housing has promoted development of this housing without detracting from new construction projects and has kept rental costs to its tenants down.

Taxation of employer provided health insurance.—Urges that tax policy encourage privately furnished health care coverage. Acknowledges that taxation of employer-provided premiums may be acceptable depending on the structure of the taxation but prefers adoption of the first Treasury proposal (exempting basic coverage from tax but including premiums above a floor amount as employee income) if any such proposal is to be enacted. Stresses that this approach would be a more effective means of controlling medical costs and excessive fringe benefits.

Rehabilitation tax credits.—Pending completion of the NCIC study and recommendations for alternative building restoration incentives, expresses support for rehabilitation tax credit provisions.

Support for tax increases.—Believes that repeal or limitation of the following incentives would not adversely affect the construction economy and are therefore acceptable: (1) the deduction for State and local taxes; (2) the deductions for entertainment and business meal expenses; (3) the credit for political contributions; and (4) energy tax credits. Supports the lowering of corporate tax rates but expresses concern that with offsets such as the investment tax credit and depreciations reduced, a net tax increase may result.

Conclusion.—Reiterates support for the President's initiative and willingness to accept a share of any tax burden that results from enactment of these proposals, but emphasizes that those elements which may adversely affect construction industry growth cannot be accepted.

Billy R. Carter, Chairman, Tax and Fiscal Affairs Committee, Associated General Contractors of America

Opposes without reservation tax reform provisions which would affect the use of the completed contract method of accounting (CCM), but withholds judgment on other proposed changes. Declares that changes which adversely affect the construction industry could be expected to affect the entire economy.

The completed contract method of accounting.—Administration's proposal: Deems the theory of tax neutrality incorporated in the President's proposals for income measurement to be inapplicable to the construction business, since the taxpayer never owns an asset producing income but only derives (and reports) income from its production. Highlights as shortcomings of the "tax neutrality" theory: (1) disallowance of the deduction of excess tax depreciation over book amounts as a period cost and not a contract cost; (2) application of rules regarding general and administrative expense allocation to small construction contractors or contracts lasting less than 36 months; (3) rules regarding the timing of deductions for employer contributions to pension and profit sharing plans; and (4) proposals for the capitalization of interest. Stresses that each of these proposals has been previously rejected and that rather than treating the contractors as engaged in a business activity generating income, they look to the depreciation basis of an asset never owned by the contractor.

Bradley/Gephardt: Maintains that the "look back" interest charge rule contained in the Bradley/Gephardt proposal (imposing interest over the length of a contract under an apportionment formula) fails to meet the standards of the "all events" test (requiring a taxpayer to perform all responsibilities necessary to earn income or show a loss before a transaction may be considered a gain or loss).

Stark proposal: Rejects the Stark proposal because it would require the use of either the progress payment method or percentage of completion method of accounting, whichever results in the greater tax liability, in long-term Federal contracts. Maintains that these methods distort income reporting since: (1) the progress payment method characterizes payments exceeding expenditures as

income even though such payments may constitute only liabilities or be required to be reported before work begins; and (2) the percentage of completion method fails the all events test by assuming income is earned on a construction contract throughout its term. Expects that the progress payment method, especially early in the course of a contract when expenses exceed payments, will subject contractors to tax on estimates of future income and that the percentage of completion method will require contractors to borrow or redirect capital to pay taxes.

Roth proposal: Opposes the Roth proposal (prohibiting the use of CCM for defense contracts, ~~except~~ those lasting less than 36 months or performed by small contractors) and recommends that it be revised to expand the construction contract exemption to cover all construction contracts.

Conclusion: Sees no justification for revising the rules governing the use of CCM by construction contractors.

Accelerated cost recovery and investment tax credits.—Believes that institution of the proposed capital cost recovery system (based on a lengthened recovery period and employing inflation adjustments) will reduce investment incentives and that the loss of the investment tax credit will adversely affect investment in projects incorporating equipment installations, thus influencing other markets as well.

ACRS benefit recapture.—Cautions that the proposal for recapture of excess depreciation (capital recovery amounts) may indirectly discourage real estate investments by changing their present value.

Cash method of accounting.—Calls for retention, without new restrictions, of the cash method of accounting, noting its wide use by construction-related smaller businesses (e.g., engineering and architectural firms) unable to take advantage of CCM.

Foreign tax credit.—Criticizes proposals for new limitations on the foreign tax credit, particularly the power country limitation, as unjustifiably restrictive of American investments abroad.

Limiting travel and expense deductions.—Urges retention of IRS rules permitting living expense deductions to be considered incurred on "temporary" job assignments of up to 2 years under certain conditions.

Fringe benefits.—Believes current law, more so than either the original Treasury proposal or the new proposal for taxing employer-provided benefits, encourages creation of benefit programs that can meet employees' needs. Believes that repeal of the \$5,000 death benefits exclusion, inclusion of health plan coverage amounts, and the imposition of uniform nondiscrimination requirements will burden families and make it difficult for employers to fashion adequate benefit plans.

Municipal bonds.—Questions the recommendations that the tax-exempt status of interest on State and local bonds issued for "private purposes" be removed. Emphasizes that such bonds issues are already subject to limitations and legislative approval and that private construction projects can and do result in substantial economic benefits to the public.

State and local tax deductions.—Expresses concern that repeal of the deduction for State and local taxes will inhibit State and local infrastructure development.

Possessions tax credit.—Believes that repeal of the possessions tax credit will have a very negative influence on U.S. possession construction activities.

Capital gains.—Maintains that proposed restrictions on capital gain eligibility will preclude limited partnerships from capital gain treatment since they own property but are without active management rights (distinguishing them from owners of active businesses who would qualify for such treatment).

At-risk limitations.—Expresses concern that application of the at-risk rules to real property investments will diminish the attractiveness of these investments.

Interest expense limitation.—Believes limiting deductions for investment interest expenses not incurred in connection with a trade or business will inhibit investment in long-term capital projects and unfairly distinguishes income producing activities. Further expresses concern that the \$5,000 limitation on deductible expenses will prevent investors able to leverage residences from investing in real estate ventures.

Construction period interest.—States that construction costs will increase if proposed requirements to capitalize interest expenses throughout the construction period are enacted.

Corporate and personal AMT's.—Sees imposition of 20-percent alternative minimum taxes as lessening benefits intended by the proposed capital cost recovery system.

Solid Waste/mining reclamation costs.—Cautions that repeal of the rule allowing reserves for expenses relating to mining and waste disposal site reclamation will increase costs of and discourage such activities.

Summary and conclusion.—Reiterates firm opposition to proposals altering CCM. Reserves judgment as to other elements of the tax reform proposals but indicates serious initial concerns regarding their effect on the construction industry and economic growth in general.

July 30, 1985—Specific Sectoral Impacts of Tax Reform

Hon. James J. Howard, Member of Congress (New Jersey), Chairman, Committee on Public Works and Transportation

Nation's infrastructure needs.—Discusses tax reform proposals as they impact on the increasing needs of the Nation's infrastructure for new construction, maintenance, and repair. Estimates that current level of revenue devoted to these projects for the remainder of the century will be \$450 billion less than needed. Although sympathetic to the need for deficit reduction, states that infrastructure needs are also crucial to our economy. Lists numerous causes for the decline in the nation's infrastructure, including high inflation and interest rates, declining share of GNP devoted to infrastructure, and a Federal emphasis on capital projects rather than repair and maintenance. States that administration proposals appear to limit the flexibility of State and local governments to help finance necessary infrastructure improvements. Says elimination of deductibility of State and local taxes may put undue pressure on States to reduce their tax rates at a time when the Federal Government is making them shoulder a greater share of programs that have been a Federal responsibility. Asserts that elimination of tax exemption for private purpose bonds would adversely affect landfills, resource recovery sites, sewage and water treatment plants. States that elimination of arbitrage and advance refundings may increase, not decrease, costs needed to build infrastructure facilities. Finally, says that elimination of investment tax credit and lengthening of depreciation recovery periods will remove incentives necessary to attract needed capital to help fund physical facilities in all areas of infrastructure.

Hon. William F. Clinger, Jr., Member of Congress (Pennsylvania)

Worker retraining.—Discusses tax reform and worker retraining in relation to the question of tax neutrality. Points out that tax incentives provided for plant and equipment and research and development for fiscal year 1986 totaled \$79.2 billion, while tax incentives for worker retraining totaled \$25 million. Believes that worker retraining should be given higher priority. Recommends providing employers with a tax credit for retraining expenses similar to the 25 percent tax credit provided for research and experimentation. Endorses H.R. 1219, the National Training Incentives Act. Says merits of this approach are that it is demand-driven and market-based, and puts training in the hands of those who are providing tomorrow's jobs. States that although the suggested tax credit represents a revenue loss of \$3.3 billion between 1985 and 1990, this investment would provide leverage for \$2.4 billion in additional private sector per year expenditures on retraining.

Hon. Nancy L. Johnson, Member of Congress (Connecticut)

Worker retraining.—Reiterates previous panelist's emphasis on the need for tax credit for training (H.R. 1219). States that H.R. 1219 is consistent with the President's plan for tax neutrality. Says it removes the bias in the President's plan that exists for research and development and plant and equipment.

Hon. Sherwood Boehlert, Member of Congress (New York), on behalf of the Northeast-Midwest Congressional Coalition

Worker retraining.—Endorses proposal for individual training accounts (ITA's) "expressly patterned after the [IRA] . . . [which would] help balance the Tax Code's overwhelming bias toward investment in capital rather than labor." Lists numerous advantages of ITA's including improvement of the rate of savings and creation of more and better training programs. Believes that the Tax Code can be used to accomplish worker training goals more effectively than appropriation-dependent Government programs.

Dexter F. Baker, President, Air Products & Chemicals, Inc., on behalf of the Chemical Manufacturers Association

Chemical industry.—Criticizes the President's tax proposal on a variety of issues. States that the chemical industry, as a capital-intensive industry, would be damaged by the President's proposal to remove the 10 percent investment tax credit and to reduce depreciation deductions. Says this proposal shifts a tax burden of nearly \$120 billion from individuals to corporations over the next 5 years and would "[a]t a minimum . . . slow productivity growth and undermine our international competitiveness." Also urges that the 25 percent tax credit for research and experimentation be extended as proposed by the President. Urges that the limit on foreign tax credits should continue to be determined on an overall basis rather than a country-to-country limit as proposed in the President's plan. Says the "title passage" test should remain the basis for determining the source of income for exports and similar sales, and the proposal for changes in the allocation of interest expenses should be rejected.

John M. Urbanchuk, Director of International Agriculture Service, Wharton Econometric Forecasting Associates

Economic growth in the agricultural sector.—Summarizes findings of Wharton Econometric Agriculture Market Model in relation to the President's tax reform proposals. Predicts that primary impact of the President's plan will be to increase the cost of capital to agriculture by as much as 19.8 percent. Says increase results from elimination of cash-basis accounting for certain agricultural enterprises; requiring capitalization of certain preproduction expenses; limitation on interest expense deductions (which will reduce the use of limited partnerships as a source of cost-effective equity capital); elimination of capital gains treatment upon the sale of certain breeding animals; and the elimination of the investment tax credit and revision of existing depreciation provisions. Says major adverse impact would fall on livestock producers, causing herd size reduction and leading to less demand for corn and soy-

bean products. States this would lead to a drop in price for these commodities, forcing producers to reduce acreage planted. Estimates a \$9.2 billion drop in farm output from 1986-93 and total farm income drop of \$10.3 billion in the same period. Says the reduction in agricultural output and income, with a concomitant loss in employment and agricultural support businesses, combined with the higher capital costs resulting from the President's tax proposal, would lead to sharp cutbacks in investment in the agricultural sector. Estimates investment would drop by as much as 11 percent. States that the President's tax plan exacts a heavy price from the agricultural sector of the economy at a time when other factors promise to add further stress to an already troubled sector of the economy.

Kevin M. Ryan, President, National Council on Compensation Insurance

Proposed taxation of worker's compensation and black lung benefits.—Opposed to taxation of workers compensation benefits and black lung benefits. Says proposal is adverse to stated goals of fairness, simplicity and economic growth. States that (1) proposal overlooks the principle that workers compensation is not income replacement but a subsistence payment, (2) benefit levels are established as a percentage of gross income on a basis which reflects their tax-exempt status, and (3) people who rely on these benefits are not wealthy and will not become so on an average maximum benefit level of \$300 per week. States that workers compensation is not a disincentive to work because workers are physically unable to work while receiving it. States that workers compensation does not subsidize specific industries and that the tax system should not make distinctions among industries. States that proposal will adversely impact on: (1) employees by reducing after tax benefits by 14 percent, (2) employers by increasing benefit costs over time, (3) insurers because of premium increases, and (4) the Federal Government by increasing expenditures of Social Security and black lung disability payments. Says any revenue raised will be offset by higher employer and government costs of providing the programs.

Steven R. Koch, Vice President and Treasurer, The Peoria Journal Star, Inc.

Employee stock ownership plans (ESOP's).—Opposes ESOP proposal. States that the proposal would make ESOP's unattractive to employers. Opposes requiring annual distributions and immediate transferability of employee stock. Says this would eliminate the employees' stake in the business, which is inconsistent with the goal of employee ownership. Opposes the proposal that each employee can require the employer to repurchase his stock. Says this would create a potential obligation for the employer to liquidate completely at any time, which would make it difficult for the employer to get loans. States that under the proposal a 401(k) plan could not be combined with an ESOP. Opposed to proposed 401(k) changes. Opposed to placing a salary cap of \$50,000 on the contribution base for ESOP's.

Monique Edwige Yingling, Counsel, The Incentive Federation

Taxation of employee achievement awards.—Opposes the taxation of employee achievement awards. Supports S. 743 as a simple, non-discriminatory solution for taxability of employee awards. States it provides for an exclusion of a sum certain from a recipient's income and provides reporting requirements. Notes that purpose of awards is to motivate employees and to foster worker productivity and that the President's proposal will discourage employers from rewarding such employee achievements.

Patrick J. Hindert, President, Benefit Designs, Inc.

Certain personal injury liability assignments.—Opposed to changes in section 130 as unnecessary. Urges section 130 be kept in present form. States that under the proposed amendment, the assignee of a third party claim must include in income the full amount received as consideration for assuming a periodic payment obligation. Says assignees would then have the option of either deducting the cost of purchasing an annuity at the time of the purchase or deducting each payment to the injured party at the time the payment is made. Objects to this treatment because it creates phantom income, it provides for varying amounts of deductions in identical transactions, it offers opportunities for evasive tax planning, and it will limit growth for the periodic payment industry.

Robert A. Stanger, Chairman, Investment Partnership Association

Investment partnerships and the retention of the interest deduction.—Favors much of President's reform proposal, especially lower marginal tax rates. Opposes proposal to classify interest paid by limited partnerships as consumer interest which would be subject to the net investment interest limitation of \$5,000. States that the proposal favors corporations and sole proprietorships over limited partnerships. States fairness is not present because only the middle class would be precluded from investing in certain leveraged investments. States that a limitation on the interest expense would reduce capital formation, that the negative impact of the interest deduction on Federal revenues is misstated, and that tax arbitrage problems are reduced under the proposal because of reduced marginal rates. Says the proposal will accentuate current bias against renters since new investment in rental housing is likely to decline. States that debt financing is not undertaken for tax considerations and that the interest expense is a legitimate cost of doing business. Asserts that limited partnerships are engaged in activities which contribute to a growing economy.

Thomas P. Martin, Esq., Hunter, Luke & Martin

Private purpose industrial development bonds.—Opposes the elimination of private purpose industrial development bonds. States that the elimination of private purpose IDB's would preclude the financing of some worthwhile projects and the use of this financing technique during times of economic distress. States that there is no solid data showing a net revenue loss to the Treasury from IDB use and that there may be revenue gain from additional personal and corporate income taxes generated by the financed

project. States that the program has been looked at repeatedly in the past and that no further changes should be made. Recommends that if it is necessary to make changes in IDB's, the State volume caps should be reduced rather than totally eliminating private purpose IDB's.

July 31, 1985—Impact on Research and Development, Venture Capital, Including Capital Gains, and Timber

Hon. Don Fuqua, Member of Congress (Florida), Chairman, Committee on Science and Technology

Research and experimental tax credit.—Stresses the importance of the research and development tax credit to innovation and international competitiveness. Endorses H.R. 1188, the High Technology Research and Scientific Education Act of 1985, a bill to make the credit permanent. Notes especially the provisions allowing the credit to start up firms and those encouraging corporate support of universities.

Space investment tax incentives.—Is a cosponsor of H.R. 2172, which would extend the investment tax credit and accelerated depreciation to U.S. investments in space. States that this proposal would equalize treatment of space based activities with earth bound ones.

Hon. Bill Nelson, Member of Congress (Florida), Chairman, Subcommittee on Space Science and Applications, Committee on Science and Technology

Research and experimental tax credit.—Is a cosponsor of H.R. 1188, which extends the research and development tax credit. Notes that the administration proposal includes an identical provision and stresses the importance of the provision to maintaining the U.S. technological lead. Mentions the extension of the credit to start-up firms, and urges that space-based activities be included in the bill.

Space investment tax incentives.—Has introduced with Mr. Downey of New York H.R. 2172, a bill which would extend the investment credit and accelerated depreciation to space investment and treat the income from such investment as domestic income. Notes that the tax law was written before the commercial uses of space were envisioned and these unintentional tax barriers should be removed.

Hon. Ron Wyden, Member of Congress (Oregon)

Tax treatment of timber.—Indicates that proposals requiring timber income to be taxed as ordinary income rather than capital gains and proposals requiring the capitalization of production expenses would have a severe negative impact on the timber industry and the State of Oregon. Contends that timber has been singled out for particularly harsh treatment and that the changes will adversely affect an industry already suffering from the recession, reduce the ability of the industry to export, and lead to unsound forest management practices.

Hon. J. Roy Rowland, Member of Congress (Georgia)

Tax treatment of timber.—Maintains that the proposals which would tax capital gains from timber as ordinary income, require capitalization of production costs, and repeal the reforestation tax credit would have a devastating effect on Georgia's timber industry. Claims that the impact would be greatest on small landowners, and that the negative effect of the capitalization provisions may be even greater than that of the capital gains treatment. Argues that it is unfair to allow capital gains treatment for assets like corporate stock while denying such treatment to timber.

Hon. Lindsay Thomas, Member of Congress (Georgia)

Tax treatment of timber.—Notes that timberland in Georgia is owned by many private individuals and only a third is owned by corporations, stressing that the notion that timber is owned only by large corporations and rich individuals is incorrect. Suggests that the tax proposals which would treat income from timber sales as ordinary income, require capitalization of production expenses, and repeal the reforestation incentives would have a severe adverse impact on the timber industry.

Erich Bloch, Director, National Science Foundation

Research and experimental tax credit.—Emphasizes that tax laws ought to encourage innovation, a major source of economic growth. Argues that the recommendation of the administration to extend the research and experimental credit for 3 years should be followed, even if tax reform legislation is not passed this year. Suggests that improvements to the credit could be explored during the extension period. Stresses the need to encourage research collaboration between industry and universities, and supports provisions in H.R. 1188 to provide a separate credit for a company's support for basic university support over a minimum base and to allow more generous deductions for contributions of equipment to universities.

Bruce Rubinger, Director of Studies, Global Competitiveness Council

Research and experimental tax credit.—The Global Competitiveness Council is an independent competitive analysis "think tank" which monitors trends and conducts research in technology. Makes a number of suggestions regarding the research and experimental tax credit. The credit should be extended at least 5 years in order to allow a planning horizon, and to encourage domestic research by multinationals. The credit should be allowed to R&D limited partnerships so that small companies can benefit. The credit should cover expenses to track and assimilate others' technological progress. In addition, the benefits of the credit for industrially supported university research should be extended to other nonprofit research institutes, and both applied and basic research should be covered.

Joseph E. Rowe, Vice Chairman and Chief Technical Officer, Gould, Inc., and Chairman, Coalition for the Advancement of Industrial Technology

Research and experimental tax credit.—Mr. Rowe appears on behalf of his own company, Gould, Inc. and also as chairman for the Coalition for the Advancement of Industrial Technology, comprised of 59 companies, 16 universities, and 10 associations. Stresses the importance of enacting a permanent R&D credit to encourage innovation, increase economic growth, and enhance international competitiveness. Notes that there is a structural underinvestment in R&D widely recognized by economists, and cites numerous studies which indicate that extending the credit will be beneficial to the country. Also supports provisions which would extend the credit to start-up firms and revise the definition of qualified expenses in H.R. 1188. Also favors legislation to increase credits for companies' support of university research and tax benefits for donating equipment to universities.

Stanley O. Ikenberry, President, University of Illinois; Coalition for the Advancement of Industrial Technology

Research and experimental tax credit.—Notes that the University of Illinois is a member of the Coalition for the Advancement of Industrial Technology and the Association of American Universities' Higher-Education Coalition for the R&D tax credit. Stresses the importance of industry-university cooperation in research. Supports H.R. 1188 and the provisions in that bill to make the R&D tax credit permanent; to expand benefits for donations to include those for educational purposes, for computer software, and for equipment used in the taxpayer's trade or business; and to provide a separate nonincremental credit for university research.

Robert Z. Lawrence, Senior Fellow, The Brookings Institution; Coalition for the Advancement of Industrial Technology

Research and experimental tax credit.—Supports the credit on the grounds that it makes resource allocation more efficient, as it offsets the tendency for the private sector to systematically underinvest in commercial R&D. Notes empirical research indicating that the social return to R&D investment is extremely high. Argues that a tax credit is a good mechanism for encouraging R&D as it leaves decisionmaking to firms and avoids the possible displacement of private funding which might occur through a grant program. Reports results of research with a colleague, Martin Baily, and Data Resources, Inc., which was commissioned by the Coalition for the Advancement of Industrial Technology, which found the credit to produce a substantial increase in GNP.

A. Kenneth Stewart, President, Teledyne Pines

Research and experimental tax credit.—Teledyne Pines is a small machine tool division of Teledyne, Inc. Mr. Stewart is also chairman of the Fox River Valley Industrial Association. Supports H.R. 1188, which would revise and extend the R&D tax credit and indicates that the credit has contributed significantly to his firm's com-

petitive position, citing particular new products which have been developed.

L. Thomas Bryan, Jr., First Vice President of the Bank of Boston, on behalf of the New England Council, Inc.

Research and experimental tax credit.—The New England Council is a regional business association of 1,300 firms. Stresses the importance of a permanent R&D tax credit for productivity and international competitiveness. Cites studies by the Brookings Institution and Data Resources, Inc., on the beneficial effects of the credits. Also supports provisions to encourage industry funded university research and discusses the New England area as an example of how R&D can benefit a region's economic vitality.

J. Gregory Ballentine, deSeve Economic Consultants

Capital gains taxes.—Notes that the weight of economic evidence indicates that innovation and advances in technology are central elements of economic growth and the free market does not provide adequate incentives for innovation. Maintains in addition that the tax system discriminates against business investment as opposed to nonbusiness investment. In addition, argues that the tax system provides disincentives for risk-taking. Suggests that reduced rates on capital gains can correct some of these problems, and cites evidence suggesting that the capital gains taxes have had dramatic effects on venture capital. Also argues that the 1978 capital gains tax reduction raised revenues.

Walter B. Stults, National Association of Small Business Investment Companies

Capital gains taxes.—Argues that lower capital gains tax rates are essential to economic growth, especially for new and growing businesses. Contends that the corporate capital gains tax rates should be lowered to parallel those for individuals.

Small business provisions.—Points out that smaller businesses are losing the investment credit and accelerated depreciation without receiving a rate reduction. Also stresses that publicly owned small business investment companies and business development corporations should be given the right to elect pass-through treatment under subchapter M, a technical provision supported by the administration, passed by the Senate twice, and recommended last year by the Subcommittee on Select Revenue Measures of the Committee on Ways and Means.

Joerg Klebe, President, CVC Capital Corp., Chairman, American Association of Minority Enterprise Small Business Investment Companies' Tax Committee

Tax provisions affecting MESBIC's.—States that minority enterprise small business investment companies are venture capital firms which receive matching grants from the Government, but, because of the lag in processing applications, these firms have become increasingly reliant on tax incentives. Stresses the importance of lower capital gains taxes and maintaining the reserve method for bad debts. Supports the Entrepreneurial Incentive Act of 1985 (introduced by Congressmen Ed Jenkins and Parren Mitch-

ell) which contains many provisions to benefit small businesses: capital gains tax deferrals, expensing of investments in qualified small businesses, ordinary rather than capital gains loss treatment, and a deduction for dividends.

Thomas F. Ruhm, Vice President and Assistant General Counsel, Bessemer Securities

Capital gains taxes.—Stresses the importance of the 60-percent exclusion for capital gains for corporate business growth, particularly in the market for growth stocks. This beneficial effect is true even though some investors are non-taxpaying. Also argues that growth companies do more R&D and much of the increase in R&D came about before the R&D credit but following lower capital gains taxes introduced in 1978. Indicates that the capital gains differential encourages companies to retain earnings for reinvestment. Disputes findings of the Congressional Budget Office, and claims that the capital gains differential is vitally important to venture capital. Also proposes that lower capital gains tax rates should be allowed for corporations.

John C. Davidson, Founder, Middle Income Lobby

Capital gains taxes.—Argues that capital gains are not income and should not be taxed. Reviews the history of the dialog on capital gains as income, including work of the late Professors Henry Simon and Stanley Surrey. States that capital gains taxes have reduced savings.

Eley C. Frazer III, President, F&W Forestry Services, Inc., on behalf of the Forest Industries Committee for Timber Valuation and Taxation, and Cooperating Associations

Tax treatment of timber.—Argues that the administration's tax proposal would result in a decline in the Nation's timber resources through capitalization of production expenses, repeal of capital gains treatment, and elimination of benefits for reforestation. Claims that these proposals ignore the response of the timber supply to Federal tax policy and that they come at a time when the Nation's timber needs are increasing. Indicates that the timber industry has been singled out for onerous treatment and the proposals would harm the industry, timber exports, and small producers.

W.M. Oettmeier, Jr., Immediate Past President, Forest Farmers Association

Tax treatment of timber.—Discusses the adverse effect of the administration's tax proposal on the private timberland owner in the South. Notes that capital gains will still be allowed for the passive investor, but not for the owner establishing and managing his stand of timber. Notes also that these farmers planted their stands in good faith, expecting that the tax benefits would occur at sale. Claims that reforestation incentives have encouraged planting and also stresses the adverse effect and complexity of capitalizing production expenses.

Keith E. Jacob, on behalf of the National Christmas Tree Association

Tax treatment of Christmas trees.—Argues that the abolition of capital gains treatment and the capitalization of production costs will adversely affect the Christmas tree industry, which is largely a family owned enterprise. Claims that the tax proposals would make intensive forestry uneconomical and put American producers at a competitive disadvantage with Canadian competitors and foreign manufacturers of plastic trees. Also notes that the proposals would require a substantial increase in recordkeeping.

